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

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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

For the quarterly period ended March 31, 2005

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

(Registrant)

New York

(State of incorporation)

16-0393470

(I.R.S. Employer Identification No.)

One Riverfront Plaza, Corning, New York

(Address of principal executive offices)

14831

(Zip Code)

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

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

1,557,553,059 shares of Corning's Common Stock, \$0.50 Par Value, were

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outstanding as of May 3, 2006.

Explanatory Note

On April 25, 2006, Corning Incorporated (Corning) filed a Current Report on Form 8-K with the Securities and Exchange Commission in which it announced that it was restating its previously issued consolidated financial statements to correct errors in its accounting for Corning's asbestos settlement liability and the accounting for its investment in Pittsburgh Corning Europe from March 31, 2003, through December 31, 2005. Corning also changed the classification of accretion on a portion of the asbestos settlement liability from interest expense to asbestos settlement expense in its statement of operations for the same time period. Corning is filing this Amendment No. 1 on Form 10-Q/A to amend its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (the Original Filing), which was originally filed on April 26, 2005.

As more fully described in Note 2 (Restatement of Previously Issued Financial Statements) to the consolidated financial statements in this Form 10-Q/A, the cumulative effect of these adjustments to Corning's March 31, 2005 balance sheet was to increase its investments in affiliate companies by \$26 million, increase other accrued liabilities by \$143 million, increase accumulated deficit by \$122 million, and increase accumulated other comprehensive income by \$5 million. The cumulative effect of these adjustments to Corning's December 31, 2004 balance sheet was to increase investments in affiliate companies by \$26 million, increase other accrued liabilities by \$141 million, increase accumulated deficit by \$123 million, and increase accumulated other comprehensive income by \$8 million.

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

	Three months ended March 31,	
	2005	2004
	----	----
As reported:		
Net income	\$ 249	\$ 55
Basic earnings per share	\$ 0.18	\$ 0.04
Diluted earnings per share	\$ 0.17	\$ 0.04
As restated:		
Net income	\$ 250	\$ 56
Basic earnings per share	\$ 0.18	\$ 0.04
Diluted earnings per share	\$ 0.17	\$ 0.04
Increase in net income	\$ 1	\$ 1

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

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

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information.

In connection with the restatement, Corning concluded that certain material weaknesses existed in its internal control over financial reporting. See Part I - Item 4 "Controls and Procedures."

This Form 10-Q/A amends and restates only certain information in Items 1, 2, and 4 of Part I and Items 1 and 6 of Part II of the Original Filing. In addition, Item 6 of Part II of the Original Filing has been amended to include updated certifications executed as of the date of this Form 10-Q/A from our Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 and an updated Computation of Ratio of Earnings to Fixed Charges. The certifications of the Chief Executive Officer and Chief Financial Officer and our Computation of Ratio of Earnings to Fixed Charges are attached to this Form 10-Q/A as exhibits 12, 31.1, 31.2, and 32.

Except for the amended and restated information, this Form 10-Q/A includes all of the information contained in the Original Filing, and no attempt has been made in this Form 10-Q/A to modify or update the disclosures presented in the Original Filing, except as required to reflect the effects of the restatement. This Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results, or developments that occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events. Forward looking statements made in the Original Filing have not been revised to reflect events, results or developments that have become known to us after the date of the Original Filing (other than the restatement), and such forward looking statements should be read in their historical context.

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

		For t

		2005
		(Restat

Net sales		\$ 1,0
Cost of sales		6

Gross margin		4
Operating expenses:		
Selling, general and administrative expenses		1
Research, development and engineering expenses		
Amortization of purchased intangibles		
Restructuring, impairment and other charges and (credits) (Note 3)		
Asbestos settlement (Note 4)		(

Operating income (loss)		1
Interest income		
Interest expense		(
Loss on repurchases and retirement of debt, net		
Other expense, net (Note 1)		

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Income (loss) before income taxes	1
(Provision) benefit for income taxes (Note 5)	(

Income (loss) before minority interests and equity earnings	
Minority interests	
Equity in earnings of associated companies	1

Net income	\$ 2
=====	
Basic earnings per common share (Note 6)	\$ 0.
=====	
Diluted earnings per common share (Note 6)	\$ 0.
=====	
Shares used in computing per share amounts for (Note 6):	
Basic earnings per common share	1,4
=====	
Diluted earnings per common share	1,5
=====	

The accompanying notes are an integral part of these statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited; in millions, except share and per share amounts)

	March
	2005
	(Restat

Assets	
Current assets:	
Cash and cash equivalents	\$ 8
Short-term investments, at fair value	7

Total cash, cash equivalents and short-term investments	1,5
Trade accounts receivable, net of doubtful accounts and allowances - \$28 and \$30	6
Inventories (Note 7)	5
Deferred income taxes (Note 5)	
Other current assets	2

Total current assets	3,0
Investments (Note 8)	1,5
Property, net of accumulated depreciation - \$3,559 and \$3,532	4,0
Goodwill and other intangible assets, net (Note 9)	3
Deferred income taxes (Note 5)	4

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Other assets	1

Total Assets	\$ 9,6
	=====
Liabilities and Shareholders' Equity	
Current liabilities:	
Short-term borrowings, including current portion of long-term debt (Note 10)	\$ 2
Accounts payable	6
Other accrued liabilities	1,1

Total current liabilities	2,0
Long-term debt (Note 10)	2,1
Postretirement benefits other than pensions	5
Other liabilities	7

Total liabilities	5,5

Commitments and contingencies (Note 4)	
Minority interests	
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: 633 thousand and 637 thousand	
Common stock - Par value \$0.50 per share; Shares authorized: 3.8 billion;	
Shares issued: 1,437 million and 1,424 million	7
Additional paid-in capital	10,4
Accumulated deficit	(7,1
Treasury stock, at cost; Shares held: 15 million and 16 million	(1
Accumulated other comprehensive income	1

Total shareholders' equity	4,0

Total Liabilities and Shareholders' Equity	\$ 9,6
	=====

The accompanying notes are an integral part of these statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

For t

2005
(Restat

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Cash Flows from Operating Activities:	
Income from continuing operations	\$ 2
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:	
Depreciation	1
Amortization of purchased intangibles	
Asbestos settlement	(
Restructuring, impairment and other charges and (credits)	
Loss on repurchases and retirement of debt	
Undistributed earnings of associated companies	(
Deferred taxes	
Restructuring payments	
Customer deposits	
Changes in certain working capital items:	
Trade accounts receivable	(
Inventories	(
Other current assets	(
Accounts payable and other current liabilities, net of restructuring payments	(1
Other, net	
Net cash provided by operating activities	----- 1 -----
Cash Flows from Investing Activities:	
Capital expenditures	(3
Short-term investments - acquisitions	(3
Short-term investments - liquidations	4
Other, net	
Net cash used in investing activities	----- (1 -----
Cash Flows from Financing Activities:	
Repayments of short-term borrowings and current portion of long-term debt	(1
Proceeds from issuance of long-term debt, net	
Retirements of long-term debt	
Proceeds from issuance of common stock, net	
Proceeds from the exercise of stock options	
Other, net	
Net cash (used in) provided by financing activities	----- (1 -----
Effect of exchange rates on cash	(
Net (decrease) increase in cash and cash equivalents	(1
Cash and cash equivalents at beginning of period	1,0
Cash and cash equivalents at end of period	----- \$ 8 =====

The accompanying notes are an integral part of these statements.

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1. Basis of Presentation

General

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, 2004 (2004 Form 10-K). Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the 2004 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.

Certain amounts for 2004 were reclassified to conform with 2005 classifications. Additionally, we have reclassified the 2004 interim results to conform to the 2004 year-end classification of auction rate securities as short-term investments instead of cash equivalents. These reclassifications had no impact on results of operations or shareholders' equity.

Foreign Currency Translation and Transactions

Effective January 1, 2005, our Taiwan subsidiary changed its functional currency from the new Taiwan dollar (its local currency) to the Japanese yen due to the increased significance of Japanese yen based transactions of that subsidiary. As a result of this change in functional currency, exchange rate gains and losses are recognized on transactions in currencies other than the Japanese yen and included in income for the period in which the exchange rates changed.

Stock-Based Compensation

We apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), for our stock-based compensation plans. The following table illustrates the effect on income and earnings per share if we had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), to stock-based employee compensation.

(In millions, except per share amounts):

For the

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	-----	20
		(Rest

Net income - as reported		\$
Add: Stock-based employee compensation expense determined under APB 25, included in reported net income, net of tax		
Less: Stock-based employee compensation expense determined under fair value based method, net of tax		

Net income - pro forma		\$
Earnings per common share:		
Basic - as reported		\$
Basic - pro forma		\$
Diluted - as reported		\$
Diluted - pro forma		\$

For purposes of SFAS 123 fair value disclosures, each option grant's fair value is estimated on the grant date using the Black-Scholes option-pricing model. The following are weighted-average assumptions used for grants under our stock option plans:

	-----	For the t
		200

Expected life in years		
Risk free interest rate		3.
Expected volatility		50.

Changes in the status of outstanding options follow:

	-----	Number of
		(in thous

Options outstanding December 31, 2004		139,0
Options granted under plans		3,4
Options exercised		(1,4
Options terminated		(9

Options outstanding March 31, 2005		140,0
Options exercisable March 31, 2005		=====
		112,4

New Accounting Standards

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In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which replaces SFAS 123 and supercedes APB 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements at fair value. On April 14, 2005, the SEC issued a new rule that amends the required effective dates for SFAS 123R. As a result of the SEC amendment, Corning intends to adopt SFAS 123R in the first quarter of 2006. The SEC amendment does not change the accounting required under SFAS 123R.

Under SFAS 123R, Corning must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost, and the transition method to be used at date of adoption. As we will implement the provisions of SFAS 123R on January 1, 2006, we must select one of the following transition method adoption alternatives permitted by the standard:

- .. "Prospective adoption" would require Corning to begin expensing share-based payments no later than January 1, 2006. Prior periods would not be restated.
- .. "Modified retrospective adoption" would require Corning to begin expensing share-based payments no later than January 1, 2006. Prior periods would be restated.

We are currently evaluating the impact that SFAS 123R will have on our consolidated results of operations and financial condition, which in part will be dependent on the amortization methods used to adopt the new rules in 2006. Our current estimate is that our incremental share-based compensation pretax expense would be approximately \$60 million in 2006 and beyond.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143," (FIN 47) which clarifies the term "conditional asset retirement obligation" used in SFAS No. 143, "Accounting for Asset Retirement Obligations," and specifically when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. Corning is required to adopt FIN 47 no later than December 31, 2005. Corning does not expect the adoption of FIN 47 to have a material impact on its consolidated results of operations and financial condition.

2. Restatement of Previously Issued Financial Statements

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

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

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the effective date of the settlement and to assign insurance policy proceeds from our primary insurance and a portion of our excess insurance at the time of the settlement.

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

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

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

The cumulative effect of these adjustments to Corning's balance sheet as of March 31, 2005, resulted in an increase in investments in affiliate companies of \$26 million, an increase to other accrued liabilities of \$143 million, an increase to accumulated deficit of \$122 million, and an increase to accumulated other comprehensive income of \$5 million.

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

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

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

For t

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	----- Previously Reported -----
Operating expenses:	
Asbestos settlement	\$ (16)
Operating income (loss)	139
Interest expense	37
Income (loss) from before income taxes	103
Provision for income taxes	(19)

Income (loss) before minority interests and equity earnings	84
Equity in earnings of associated companies, net of impairments	166
Net income	\$ 249
Basic earnings per common share	\$ 0.18
Diluted earnings per common share	\$ 0.17

	----- Previously Reported -----	For t
Operating expenses:		
Asbestos settlement	\$ 19	
Operating loss	(7)	
Interest expense	36	
Loss before income taxes	(64)	
Benefit for income taxes	12	

Loss before minority interests and equity earnings	(52)	
Equity in earnings of associated companies, net of impairments	107	
Net income	\$ 55	
Basic earnings per common share	\$ 0.04	
Diluted earnings per common share	\$ 0.04	

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

	As of
	Previously Reported
Investments	\$ 1,485
Total Assets	\$ 9,633
Other accrued liabilities	\$ 1,001
Total current liabilities	\$ 1,956
Total liabilities	\$ 5,416
Accumulated deficit	\$ (7,060)
Accumulated other comprehensive income	\$ 137
Total shareholders' equity	\$ 4,188
Total Liabilities and Shareholders' Equity	\$ 9,633

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

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

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	For t
	----- Previously Reported -----
Cash Flows from Operating Activities:	
Net income	\$ 249
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:	
Asbestos settlement charge	(16)
Undistributed earnings of associated companies	(23)
Other, net	34
Net cash provided by operating activities	\$ 142

	For t
	----- Previously Reported -----
Cash Flows from Operating Activities:	
Net income	\$ 55
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:	
Asbestos settlement charge	19
Undistributed earnings of associated companies	(29)
Deferred taxes	(40)
Other, net	(1)
Net cash provided by operating activities	\$ 45

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

2005 Actions

In the first quarter of 2005, we recorded a \$19 million impairment charge for an other than temporary decline in the fair value of our investment in Avanex Corporation (Avanex) below its cost basis. Our investment in Avanex is accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At March 31, 2005, shares of Avanex stock were trading at \$1.30 per share compared to our average cost basis of \$2.40 per share. We intend to sell our shares of Avanex and, subject to restrictions and the trading volume in Avanex stock, we expect to complete this activity in early 2006. As we do not expect the market value of the Avanex shares to recover in this timeframe, the impairment in the first quarter was required.

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The following table illustrates the charges, credits and balances of the restructuring reserves as of and for the three months ended March 31, 2005 (in millions):

	January 1, 2005	Quarter ended Mar 31, 2005 charge

Restructuring charges:		
Employee related costs	\$ 18	
Other charges	77	

Total restructuring charges	\$ 95	

Other:		
Impairment of available-for-sale securities		\$ 19

Total restructuring, impairment and other charges and (credits)		\$ 19

Cash payments for employee related costs will be substantially complete by the end of 2005, while payments for exit activities will be substantially completed by the end of 2008.

2004 Actions

In the first quarter of 2004, we recorded net charges of \$34 million included in restructuring, impairment and other charges and (credits). A summary of these charges and credits follow:

- .. We recorded \$39 million of accelerated depreciation and \$1 million of exit costs relating to the final shutdown of our semiconductor materials manufacturing facility in Charleston, South Carolina, which we announced in the fourth quarter of 2003.
- .. We recorded credits of \$6 million, primarily related to proceeds in excess of assumed salvage values for assets that were previously impaired.

The following table illustrates the charges, credits and balances of the restructuring reserves as of and for the three months ended March 31, 2004 (in millions):

	January 1, 2004	Quarter ended March 31, 2004 charge	Revisions to existing plans	N char (reve

Restructuring charges:				
Employee related costs	\$ 78			
Other charges	108	\$ 1		\$

Total restructuring charges	\$ 186	\$ 1		\$

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Impairment of long-lived assets:

Assets to be disposed of by sale
or abandonment

\$ (6) \$

Other:

Accelerated depreciation

\$ 39 \$

Total restructuring, impairment and
other charges and (credits)

\$ 40 \$ (6) \$

4. Commitments and Contingencies

Asbestos Settlement

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

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

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

In the first quarter of 2005, we recorded a credit to the asbestos settlement of \$12 million, including \$16 million reflecting the decrease in the value of Corning's common stock from December 31, 2004 to March 31, 2005, and \$4 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

In the first quarter of 2004, we recorded asbestos settlement expense of \$22 million, including \$19 million for the increase in the value of Corning's common

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stock from December 31, 2003 to March 31, 2004, and a \$3 million charge to adjust the estimated fair value of the other components of the proposed asbestos settlement.

Since March 28, 2003, we have recorded total net charges of \$588 million to reflect the initial settlement liability and subsequent adjustments for the change in the fair value of the components of the liability.

The fair value of the liability expected to be settled by contribution of our investment in PCE, the fair value of 25 million shares of our common stock and assigned insurance proceeds (in aggregate totaling \$442 million at March 31, 2005) is recorded in other accrued liabilities in our consolidated balance sheets. As the timing of this obligation's settlement will depend on future judicial rulings (i.e., controlled by a third party and not Corning), this portion of the PCC liability is considered a "due on demand" obligation. Accordingly, this portion of the obligation has been classified as a current liability, even though it is possible that the contribution could be made beyond one year. The remaining portion of the settlement liability (totaling \$146 million at March 31, 2005), representing the net present value of the cash payments, is recorded in the other liabilities component in our consolidated balance sheets.

Other Commitments and Contingencies

We provide financial guarantees and incur contingent liabilities in the form of purchase price adjustments related to attainment of milestones, stand-by letters of credit and performance bonds. These guarantees have various terms, and none of these guarantees are individually significant. We have also agreed to provide a credit facility to Dow Corning Corporation (Dow Corning) as discussed in Note 8 to the consolidated financial statements in our 2004 Form 10-K. The funding of the Dow Corning \$150 million credit facility is subject to events connected to the Bankruptcy Plan. As of March 31, 2005, we were contingently liable for the items described above totaling \$364 million, compared with \$368 million at December 31, 2004. We believe a significant majority of these guarantees and contingent liabilities will expire without being funded.

From time to time, we are subject to uncertainties and litigation and are not always able to predict the outcome of these items with assurance. Various legal actions (including the PCC matter discussed previously), claims and proceedings are pending against us, including those arising out of alleged product defects, product warranties, patents, asbestos and environmental matters. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Corning's consolidated financial position, liquidity or results of operations.

5. Income Taxes

Our (provision) benefit for income taxes and the related tax rates follow (in millions):

	For the three months ended March 31,	
	2005 (Restated)	2004 (Restated)
(Provision) benefit for income taxes	\$ (19)	\$ 13

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Effective (income tax) benefit rate (18.8)% (20.0)%

For the three months ended March 31, 2005, the tax provision reflected the impact of maintaining a valuation allowance on the majority of net deferred tax assets. As a result, U.S. (federal, state and local) and certain foreign income taxes attributable to pre-tax income or losses were not provided. The \$19 million income tax provision included income taxes for certain foreign operations that were favorably impacted by tax holiday benefits and investment tax credits. For the U.S. and certain foreign operations, the income tax provision or benefit attributable to pre-tax income or losses was recorded as an adjustment to the valuation allowance.

At March 31, 2005, we had net deferred tax assets of \$535 million, which are primarily U.S. net deferred tax assets. We continue to believe it is more likely than not that we could realize these U.S. net deferred tax assets through a tax-planning strategy involving the sale of a non-strategic appreciated asset.

We expect to maintain a valuation allowance on future tax benefits until an appropriate level of profitability, primarily in the U.S. and Germany, is sustained or we are able to develop tax planning strategies that enable us to conclude that it is more likely than not that a larger portion of our deferred tax assets would be realizable, or if the PCC settlement is finalized earlier than we anticipate. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations and the expense or benefit from U.S. and certain foreign operations will be recorded as an adjustment to the valuation allowance.

The effective benefit rate for the three months ended March 31, 2004 is lower than the U.S. statutory income tax rate of 35%. Our effective benefit rate was impacted by restructuring, impairment and other charges and (credits), asbestos settlement charges and loss on repurchases and retirement of debt.

6. Earnings Per Common Share

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

	For the three months ended			
	2005 (Restated)			
	Net Income	Weighted- Average Shares	Per Share Amount	Net Income
Basic earnings per common share	\$ 250	1,411	\$ 0.18	\$ 5
Effect of dilutive securities:				
Stock options		31		
7% mandatory convertible preferred stock		32		
3.50% convertible debentures	2	29		

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Diluted earnings per common share \$ 252 1,503 \$ 0.17 \$ 5

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 periods presented (in millions):

For the three months ended March 31,

	2005	2004
--	------	------

Potential common shares excluded from the calculation of diluted earnings per common share:

3.50% convertible debentures		57
4.875% convertible notes	6	6
Zero coupon convertible debentures	3	4
	-----	-----
Total	9	67
	=====	=====

Stock options excluded from the calculation of diluted earnings (loss) per share because the exercise price was greater than the average market price of the common shares

	63	55
--	----	----

7. Inventories

Inventories comprise the following (in millions):

	March 31, 2005	December 31, 2004
Finished goods	\$ 157	\$ 136
Work in process	170	172
Raw materials and accessories	137	139
Supplies and packing materials	98	88
	-----	-----
Total inventories	\$ 562	\$ 535

8. Investments

Investments comprise the following (in millions):

	Ownership Interest	March 2004 (Restated)
	-----	-----

Associated companies at equity

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Samsung Corning Precision Glass Co., Ltd.	50%	\$ 5
Dow Corning	50%	3
All other	25%-51% (a)	5

Other investments (b)		1,4

Total		\$ 1,5

- (a) Amounts reflect Corning's direct ownership interests in the respective associated companies. Corning does not control any such entities.
- (b) Amounts reflect \$22 million and \$53 million at March 31, 2005 and December 31, 2004, respectively, of available-for-sale securities stated at market. During the first quarter of 2005, Corning recorded an impairment charge of \$19 million for an other than temporary decline in the fair value of shares of Avanex below their cost basis. This included the reversal of previously unrecognized gains on Avanex shares of \$14 million included in accumulated other comprehensive income at December 31, 2004 on the consolidated balance sheet. Refer to Note 3 (Restructuring, Impairment and Other Charges and Credits) for additional information.

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 liquid crystal display glass for flat panel displays. Samsung Corning Precision's results of operations follow (in millions):

	For the th

	200

Statement of Operations:

Net sales	\$ 3
Gross profit	\$ 2
Net income	\$ 1
Corning's equity in earnings of Samsung Corning Precision	\$

Related Party Transactions:

Corning sales of inventory to Samsung Corning Precision	
Corning purchases from Samsung Corning Precision	\$
Corning sales of machinery and equipment to Samsung Corning Precision	\$

Balances due to and from Samsung Corning Precision were immaterial at March 31, 2005 and December 31, 2004.

Dow Corning

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

For the three months ended March 31,

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	2005	2004
Statement of Operations:		
Net sales	\$ 983	\$ 814
Gross profit	\$ 346	\$ 230
Net income	\$ 136	\$ 52
Corning's equity in earnings of Dow Corning	\$ 68	\$ 24

9. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2005 follow (in millions):

	Telecom- munications	Display Technologies	Other
Balance at January 1, 2005	\$ 123	\$ 9	\$ 1
Foreign currency translation & other	(5)		
Balance at March 31, 2005	\$ 118	\$ 9	\$ 1

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

Other intangible assets follow (in millions):

	March 31, 2005			
	Gross	Accumulated Amortization	Net	Gro
Amortized intangible assets:				
Patents and trademarks	\$ 146	\$ 81	\$ 65	\$ 1
Non-competition agreements	115	115		1
Other	4	1	3	
Total amortized intangible assets	265	197	68	2
Unamortized intangible assets:				
Intangible pension assets	42		42	
Total	\$ 307	\$ 197	\$ 110	\$ 3

Amortized intangible assets are primarily related to the Telecommunications

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segment.

Estimated amortization expense related to these intangible assets is \$13 million in 2006, \$12 million in 2007, \$11 million in 2008, and insignificant thereafter.

10. Debt

In the first quarter of 2005, we completed the following debt transactions:

- .. We obtained a loan of approximately \$48 million, bearing interest at 2.1%, from a Japanese bank. This loan is part of a 10-year loan agreement entered into in 2004 to fund certain capital expansion activities in Japan.
- .. We redeemed \$100 million of our outstanding 3.50% convertible debentures. The bondholders affected by this redemption elected to convert \$98 million of their debentures into Corning common stock at a conversion ratio of 103.3592 shares per \$1,000 debenture, with the remaining \$2 million repaid in cash. Separately, bondholders elected to convert approximately \$6 million of outstanding debentures into Corning common stock. In total, we issued 11 million shares upon the conversion of the debentures, resulting in an increase to equity of \$105 million. At March 31, 2005, \$191 million of our 3.50% convertible debentures remained outstanding. We expect to redeem these debentures, subject to market conditions, before December 31, 2005.
- .. We repaid a total of \$192 million of notes in accordance with their stated repayment schedule. This was primarily comprised of our 5.625% Euro notes.

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

11. Customer Deposits

In 2005 and 2004, Corning and several customers entered into long-term purchase and supply agreements in which the Display Technologies segment will supply large-size glass substrates to the customers over periods of up to six years. As part of the agreements, these customers have agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased. During the current year, we received a total of \$108 million of deposits against orders, of which \$20 million was received in the first quarter. Upon receipt of the cash deposits made by customers, we record a customer deposit liability, which will be applied in the form of credits against future product purchases over the life of the agreements. As product is shipped to a customer, Corning will recognize revenue at the selling price and issue a credit memorandum for an agreed amount of the customer deposit liability. The credit memorandum will be applied against customer receivables resulting from the sale of product, thus reducing operating cash flows in later periods as credits are applied for cash deposits received in earlier periods.

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

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	2004	For the three months ended March 31, 2005	Remainder of 2005
Customer deposits received (a)	\$ 204	\$ 20	\$ 463

(a) The majority of customer deposits will be received through 2006.

We had total customer deposit liabilities of \$228 million and \$215 million at March 31, 2005 and December 31, 2004, respectively, of which \$40 million and \$18 million were recorded in the current liabilities - other accrued liabilities component of our consolidated balance sheets.

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

12. Employee Retirement Plans

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

	Pension benefits For the three months ended March 31,		Post For
	2005	2004	2005
Service cost	\$ 16	\$ 11	\$ 2
Interest cost	45	38	12
Expected return on plan assets	(52)	(43)	
Amortization of net loss	1	6	1
Amortization of prior service cost	10	3	(2)
Total expense	\$ 20	\$ 15	\$ 13

For 2005, we expect to contribute at least \$100 million in cash or stock to our domestic and international pension plans.

13. Comprehensive Income

Components of comprehensive income, on an after-tax basis where applicable,

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follow (in millions):

	For the th
	2005
	(Restated
Net income	\$ 250
Other comprehensive income:	
Change in unrealized gain (loss) on investments, net	(33
Reclassification adjustment relating to investments included in net income, net	19
Change in unrealized gain (loss) on derivative instruments, net	26
Reclassification adjustment relating to derivatives, net	(13
Foreign currency translation adjustment, net (a)	(15
Change in minimum pension liability	2
Total comprehensive income	\$ 236

(a) The initial implementation of our Taiwan subsidiary's change in its functional currency from the new Taiwan dollar to the Japanese yen effective January 1, 2005 had the effect of increasing the U.S. dollar value of its net assets and increasing accumulated other comprehensive income by \$23 million. The impact of this change is included in the foreign currency translation adjustment, net amount.

14. Operating Segments

Our reportable operating segments follow:

- .. Display Technologies - manufactures liquid crystal display glass for flat panel displays;
- .. Telecommunications - manufactures optical fiber and cable, and hardware and equipment components for the telecommunications industry;
- .. Environmental Technologies - manufactures ceramic substrates and filters for automobile and diesel applications; and
- .. Life Sciences - manufactures glass and plastic consumables for scientific applications.

All other operating segments that do not meet the quantitative threshold for separate reporting (e.g., Specialty Materials, Ophthalmic and Conventional Video Components), certain corporate investments (e.g., Dow Corning and Steuben Glass), discontinued operations, and unallocated expenses (including other corporate items) have been grouped as "Unallocated and Other." Unallocated expenses include the following: gains or losses on repurchases and retirement of debt; charges related to the asbestos litigation; restructuring, impairment and other charges and (credits) related to the corporate research and development or staff organizations; and charges for increases in our tax valuation allowance. Unallocated and Other also represents the reconciliation between the totals for the reportable segments and our consolidated operating results.

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Operating Segments (in millions)	Display Technologies	Telecom- munications	Environmental Technologies	Li Scie
For the three months ended March 31, 2005 (Restated)				
Net sales	\$ 320	\$ 427	\$ 148	\$
Research, development and engineering expenses (1)	\$ 25	\$ 22	\$ 26	\$
Restructuring, impairment and other charges and (credits)				
Interest expense (2)	\$ 16	\$ 11	\$ 6	\$
(Provision) benefit for income taxes	\$ (17)	\$ (2)		
Income (loss) before minority interests and equity earnings (3)	\$ 80	\$ 9	\$ (2)	\$
Minority interests				
Equity in earnings of associated companies	81			
Net income (loss)	\$ 161	\$ 9	\$ (2)	\$
For the three months ended March 31, 2004 (Restated)				
Net sales	\$ 230	\$ 312	\$ 141	\$
Research, development and engineering expenses (1)	\$ 16	\$ 25	\$ 20	\$
Restructuring, impairment and other charges and (credits)		\$ (4)		
Interest expense (2)	\$ 11	\$ 16	\$ 5	\$
(Provision) benefit for income taxes	\$ (26)	\$ 23	\$ (3)	\$
Income (loss) before minority interests and equity earnings (3)	\$ 53	\$ (47)	\$ 6	\$
Minority interests		1		
Equity in earnings of associated companies	65	3		
Net income (loss)	\$ 118	\$ (43)	\$ 6	\$

- (1) Non-direct research, development and engineering expenses are allocated based upon direct project spending for each segment.
- (2) Interest expense is allocated to segments based on a percentage of segment net operating assets. Consolidated subsidiaries with independent capital structures do not receive additional allocations of interest expense.
- (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.

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

For the three months ended M

2005

2004

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	(Restated)	(Restated)
Net income of reportable segments	\$ 166	\$
Non-reportable operating segments net income (loss) (1)	10	(
Unallocated amounts:		
Non-segment loss and other (2)		
Non-segment restructuring, impairment and other (charges) and credits (3)	(19)	
Asbestos settlement	12	
Interest income	10	
Loss on repurchases of debt		
Benefit for income taxes (4)		
Equity in earnings of associated companies (5)	71	
Net income	\$ 250	\$

- (1) Non-reportable operating segments net income (loss) includes the results of non-reportable operating segments.
- (2) Non-segment loss and other includes the results of non-segment operations and other corporate activities.
- (3) For the first quarter of 2005, non-segment restructuring, impairment and other (charges) and credits includes an impairment charge for the other than temporary decline in the market value of Avanex shares.
- (4) Benefit for income taxes includes taxes associated with non-segment restructuring, impairment and other (charges) and credits.
- (5) Equity in earnings of associated companies includes amounts derived from corporate investments, primarily Dow Corning.

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

OVERVIEW

Our key priorities for 2005 remain unchanged from the previous year: protect our financial health, improve our profitability, and invest in the future. During the first quarter of 2005, we made the following progress against these priorities:

Financial Health

Our balance sheet remains strong and we continue to generate positive cash flows from operating activities. Significant activities during the quarter included the following:

- .. We reduced outstanding debt by \$279 million. This included the scheduled repayment of \$192 million of debt and the early retirement of \$106 million of long-term debt, the majority of which was converted into Corning common stock. As a result of these transactions, our debt to capital ratio declined to 36%.
- .. We entered into additional multi-year customer supply agreements in the Display Technologies segment, and received \$108 million in deposits against orders, of which \$20 million was received in the first quarter.
- .. We completed negotiations with a group of banks on a new revolving credit facility. The new facility provides us access to a \$975 million revolving

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line of credit and expires in March 2010. This facility replaces our previous \$2 billion revolving line of credit facility that was set to expire in August 2005.

We ended the first quarter of 2005 with \$1.5 billion in cash, cash equivalents and short-term investments. This represents a decrease of approximately \$300 million from December 31, 2004, primarily due to capital spending in excess of cash provided by operating activities and the net debt repayments.

Profitability

For the three months ended March 31, 2005, we generated net income of \$250 million or \$0.17 per share. This represents an improvement of \$194 million over the same period in 2004. This improvement in net income was primarily driven by the following:

- .. Growth in our Display Technologies segment, which continued to experience strong market demand for LCD glass substrates. For 2005, net income for the Display Technologies segment, including equity earnings from Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision), a South Korea-based manufacturer of LCD glass substrates, increased \$43 million, or 36%.
- .. Improved performance in the Telecommunications segment. This segment generated a modest profit of \$9 million, which represented an improvement of \$52 million compared to the first quarter of 2004 net loss.
- .. Strong equity earnings from Dow Corning Corporation (Dow Corning), a U.S. based manufacturer of silicone products, of \$68 million, which represented a 183% increase over the amount recognized in the first quarter of 2004.

Investing in our Future

We continue to invest in a wide array of technologies, with our focus being LCD glass substrates, diesel filters and substrates in response to tightening emissions control standards, and optical fiber and cable and hardware and equipment to enable fiber-to-the-premises.

Our research, development and engineering expenses have increased \$14 million compared to the first quarter of 2004, but are relatively constant as a percentage of net sales. We believe our current spending levels are adequate to enable us to execute our growth strategies.

Our capital expenditures are primarily focused on expanding manufacturing capacity for LCD glass substrates in the Display Technologies segment and diesel products in the Environmental Technologies segment. Total capital expenditures for the first quarter of 2005 were \$323 million, of which \$283 million and \$34 million was directed toward our Display Technologies and Environmental Technologies segments, respectively.

Restatement of Prior Period Financial Statements

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

The cumulative effect of these adjustments to Corning's balance sheet as of March 31, 2005, resulted in an increase in investments in affiliate companies of

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\$26 million, an increase to other accrued liabilities of \$143 million, an increase to accumulated deficit of \$122 million, and an increase to accumulated other comprehensive income of \$5 million.

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

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

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

RESULTS OF OPERATIONS

Selected highlights for the first quarter were as follows (dollars in millions):

	For the three months ended	
	2005 (Restated)	(R
Net sales	\$ 1,050	\$
Gross margin (gross margin %)	\$ 429 41%	\$
Selling, general and administrative expenses (as a % of net sales)	\$ 184 18%	\$
Research, development and engineering expenses (as a % of net sales)	\$ 98 9%	\$
Restructuring, impairment and other charges and (credits) (as a % of net sales)	\$ 19 2%	\$
Asbestos settlement (as a % of net sales)	\$ (12) (1)%	\$
Income (loss) before income taxes (as a % of net sales)	\$ 101 10%	\$
(Provision) benefit for income taxes (as a % of net sales)	\$ (19) (2)%	\$
Equity in earnings of associated companies	\$ 169	\$

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(as a % of net sales)		16%	
Net income	\$	250	\$
(as a % of net sales)		24%	

Net Sales

The net sales increase for the first quarter of 2005 was the result of demand for products in our Telecommunications segment to support fiber-to-the-premises projects and continued strong demand for LCD glass substrates in our Display Technologies segment. The performance in all other segments of the company was comparable to the year ago period. Movements in foreign exchange rates, primarily the Japanese yen and Euro. Movements in foreign exchange rates, primarily the Japanese yen and Euro, did not significantly impact the comparison of net sales between 2005 and 2004.

Gross Margin

As a percentage of net sales, gross margin improved 5 points in the first quarter of 2005. The improvement in overall dollars and as a percentage of net sales was primarily driven by increased volume in our Telecommunications and Display Technologies segments.

Selling, General and Administrative Expenses

The increase in selling, general and administrative expenses is primarily driven by increases in compensation costs. As a percentage of net sales, selling, general and administrative expenses have remained comparable to the year ago period.

Research, Development and Engineering Expenses

Research, development and engineering expenses have increased \$14 million over 2004, but have remained comparable as a percentage of net sales. Our expenditures are focused on our Environmental Technologies, Display Technologies and Telecommunications segments as we strive to capitalize on the current market opportunities in those segments.

Restructuring, Impairment and Other Charges and (Credits)

In the first quarter of 2005, we recorded a \$19 million impairment charge for an other than temporary decline in the fair value of our investment in Avanex Corporation (Avanex) below its cost basis. Our investment in Avanex is accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At March 31, 2005, shares of Avanex stock were trading at \$1.30 per share compared to our average cost basis of \$2.40 per share. We intend to sell our shares of Avanex and, subject to restrictions and the trading volume in Avanex stock, we expect to complete this activity in early 2006. As we do not expect the market value of the Avanex shares to recover in this timeframe, the impairment in the first quarter was required. The charge in the first quarter of 2004 was primarily due to the final shutdown of our semiconductor manufacturing facility in Charleston, South Carolina.

Asbestos Settlement

The asbestos settlement activity relates to changes in the estimated fair value of certain items to be contributed by Corning under the Pittsburgh Corning Corporation (PCC) asbestos settlement agreement if the PCC Plan of Reorganization receives judicial approval. For additional information on this matter, refer to Note 4 (Commitments and Contingencies) to the consolidated

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financial statements and Part II - Other Information, Item 1. Legal Proceedings.

Income (Loss) Before Income Taxes

In addition to the key drivers outlined above, the comparability of income (loss) before income taxes between 2005 and 2004 was impacted by movements in foreign exchange rates. In the first quarter of 2005, we incurred an exchange rate loss of \$26 million. This exchange rate loss was due to the impact of currency movements on unhedged balance sheet exposures, most notably at our Taiwan subsidiary which changed its functional currency from the new Taiwan dollar (its local currency) to the Japanese yen in the first quarter of 2005. Refer to Note 1 to the consolidated financial statements for additional information. Movements in exchange rates did not significantly impact results for the first quarter of 2004.

(Provision) Benefit for Income Taxes

Our (provision) benefit for income taxes and the related tax rates follow (in millions):

	For the three months ended March 31,	
	2005 (Restated)	2004 (Restated)
(Provision) benefit for income taxes	\$ (19)	\$ 13
Effective (income tax) benefit rate	(18.8)%	(20.0)%

For the three months ended March 31, 2005, the tax provision reflected the impact of maintaining a valuation allowance on the majority of net deferred tax assets. As a result, U.S. (federal, state and local) and certain foreign income taxes attributable to pre-tax income were not provided. The \$19 million income tax provision included income taxes for certain foreign operations that were favorably impacted by tax holiday benefits and investment tax credits. For the U.S. and certain foreign operations, the income tax provision or benefit attributable to pre-tax income or losses was recorded as an adjustment of the valuation allowance.

At March 31, 2005, we had net deferred tax assets of \$535 million, which are primarily U.S. net deferred tax assets. We continue to believe it is more likely than not that we could realize these U.S. net deferred tax assets through a tax-planning strategy involving the sale of a non-strategic appreciated asset.

We expect to maintain a valuation allowance on future tax benefits until an appropriate level of profitability, primarily in the U.S. and Germany, is sustained or we are able to develop tax planning strategies that enable us to conclude that it is more likely than not that a larger portion of our deferred tax assets would be realizable, or if the Pittsburgh Corning Corporation settlement is finalized earlier than we anticipate. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations and the expense or benefit from U.S. and certain foreign operations will be recorded as an adjustment to the valuation allowance.

The effective benefit rate for the three months ended March 31, 2004 is lower than the U.S. statutory income tax rate of 35%. Our effective benefit rate was impacted by restructuring, impairment and other charges and (credits), asbestos settlement charges and loss on repurchases and retirement of debt.

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Equity in Earnings of Associated Companies

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

	For the three months ended March 31,	
	2005 (Restated)	2004 (Restated)
Samsung Corning Precision	\$ 80	\$ 65
Dow Corning	68	24
All other	21	19
Total equity earnings	\$ 169	\$ 108

The improvement in equity earnings recognized from Samsung Corning Precision is explained in the discussion of the performance of our Display Technologies segment. The increase in 2005 equity earnings recognized from Dow Corning compared to 2004 is largely attributed to record sales volumes and improved pricing for Dow Corning in 2005.

Refer to Note 8 to the consolidated financial statements for additional information relating to Samsung Corning Precision and Dow 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):

	For the three months ended March 31,	
	2005 (Restated)	2004 (Restated)
Net income	\$ 250	\$ 56
Basic earnings per common share	\$ 0.18	\$ 0.04
Diluted earnings per common share	\$ 0.17	\$ 0.04
Shares used in computing per share amounts:		
Basic	1,411	1,358
Diluted	1,503	1,437

OPERATING SEGMENTS

Our reportable operating segments follow:

- .. Display Technologies - manufactures liquid crystal display (LCD) glass for flat panel displays;
- .. Telecommunications - manufactures optical fiber and cable, and hardware and equipment components for the telecommunications industry;
- .. Environmental Technologies - manufactures ceramic substrates and filters for automobile and diesel applications; and
- .. Life Sciences - manufactures glass and plastic consumables for scientific applications.

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All other operating segments that do not meet the quantitative threshold for separate reporting (e.g., Specialty Materials, Ophthalmic and Conventional Video Components), certain corporate investments (e.g., Dow Corning and Steuben Glass), discontinued operations, and unallocated expenses (including other corporate items) have been grouped as "Unallocated and Other." Unallocated expenses include the following: gains or losses on repurchases and retirement of debt; charges related to the asbestos litigation; restructuring, impairment and other charges and (credits) related to the corporate research and development or staff organizations; and charges for increases in our tax valuation allowance. Unallocated and Other also represents the reconciliation between the totals for the reportable segments and our consolidated operating results.

Display Technologies

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

	For the three months ended March 31,		% Change 05 vs. 04
	2005	2004	
Net sales	\$ 320	\$ 230	39%
Income before equity earnings	\$ 80	\$ 53	51%
Equity earnings of associated companies	\$ 81	\$ 65	25%
Net income	\$ 161	\$ 118	36%

The 2005 net sales increase is largely reflective of the overall LCD market growth. During the first quarter of 2005, glass substrate volumes (measured in square feet of glass sold) increased approximately 35%. Weighted average selling prices increased modestly compared to 2004. Included in this weighted average were selling price declines that were more than offset by increases in the market demand for large-size glass substrates (generation 5 and above), which carry a higher selling price per square foot. For the first quarter of 2005, large-size glass substrates accounted for 58% of total sales volumes, compared to 34% for the first quarter of 2004. The sales of the Display Technologies segment are denominated in Japanese yen and, as such, our revenues are susceptible to movements in the US dollar - Japanese yen exchange rates. Sales growth benefited by approximately 3% from a weakening of the U.S. dollar compared to 2004.

For 2005, the increase in income before equity earnings was the result of higher volumes and ongoing improvements in manufacturing efficiencies. Net income before equity earnings for the first quarter of 2005, includes approximately \$20 million of exchange losses related to foreign currency denominated transactions. The impact of this loss on the comparability of results was largely offset by a lower effective tax rate in 2005 than in 2004. The increase in our equity earnings from Samsung Corning Precision were largely driven by the same factors identified for our wholly-owned business, excluding the foreign exchange loss.

The Display Technologies segment continues to have a concentrated customer base comprised of LCD panel makers primarily located in Japan and Taiwan. The most significant customers in these markets are AU Optronics Corp., Chi Mei Optoelectronics Corp., Hannstar Display Corp., Quanta Display Inc., Sharp Corporation, and Toppan CFI (Taiwan) Co., Ltd. For the three months ended March 31, 2005, these customers accounted for 79% of the Display Technologies segment sales.

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We expect the LCD market to continue to grow rapidly. We anticipate higher demand for LCD televisions, for which our customers require large-size glass substrates. During 2005 and 2004, Corning held discussions with several of its customers to discuss how to meet this demand. As part of its discussions, Corning has sought improved payment terms, including deposits against orders, to provide a greater degree of assurance that we are effectively building capacity to meet the needs of a rapidly growing industry.

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

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

Outlook:

We expect to see a continuation of the overall industry growth and the trend toward large size substrates. Full year 2005 volume growth for the LCD glass market is anticipated to be greater than 50%, and we anticipate adding sufficient capacity to meet market growth. This market growth is expected to occur at varying rates in the principal LCD markets of Japan, Taiwan, China and Korea. Sales of our wholly-owned business are primarily to panel manufleft">reviewing developme

overseeing the evaluation of the Board and management;

recommending members for each Board committee to the Board;

reviewing and monitoring our code of conduct and actual and potential conflicts of interest of members of our Board and officers;
and

reviewing and evaluating, at least annually, its own performance and that of its members, including compliance with the committee charter.

Our nominating and governance committee is currently composed of Woody Marshall, Philip S. Siegel and Robert Solomon. Mr. Marshall has served as the chairperson of our nominating and governance committee since 2011. In April 2013, our Board determined that each member of our nominating and governance committee is independent under the applicable requirements of the NASDAQ and SEC rules and regulations. The nominating and governance committee met three times during 2012.

The audit committee, compensation committee and nominating and governance committee operate under written charters adopted by the Board. These charters are available on the investor relations portion of our website at <http://investors.homeaway.com> in the Corporate Governance section and will be available without charge, upon request in writing to HomeAway, Inc., 1011 W. Fifth Street, Suite 300, Austin, Texas 78703,

Attn: General Counsel.

Risk Oversight

Our business is subject to various types of risk, including business risks relating to our strategy, competitive position, operations and financial structure, technological risks, legal and compliance risks and others. Our Board oversees our risk management processes implemented by management and regularly reviews reports from members of senior management on areas of material risk. The committees of the Board are charged with overseeing certain types of risks. The audit committee is responsible for overseeing the management of financial and operational risks. The compensation committee is responsible for overseeing the management of risks relating to executive compensation. The nominating and governance committee is responsible for overseeing the management of risks relating to corporate governance. The full Board regularly receives reports from each committee on the management of these risks and is charged with the management of all other risks.

Director Independence

Our Corporate Governance Guidelines, which may be found at the investor relations portion of our website at <http://investors.homeaway.com> in the Corporate Governance section, state that our Board shall have a majority of directors who meet the criteria for independence established by applicable law. In April 2013, our Board, following consultation with our nominating and governance committee, undertook a review of the independence of the directors and considered whether any director has a material relationship with us that could compromise his or her ability to exercise judgment in carrying out his or her responsibilities. As a result of this review, our Board determined that Lanny Baker, Simon Breakwell, Jeffrey D. Brody, Woody Marshall, Tina Sharkey, Philip S. Siegel and Robert Solomon are independent directors as defined under the applicable NASDAQ and SEC rules and regulations.

There are no family relationships among our executive officers and directors.

Communications with the Board of Directors

Any matter intended for the Board, or for any individual member or members of the Board, should be directed to our General Counsel at 1011 W. Fifth Street, Suite 300, Austin, Texas 78703, with a request to forward the communication to the intended recipient or recipients. In general, any stockholder communication

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delivered to our General Counsel for forwarding to the Board or specified Board member or members will be forwarded in accordance with the stockholder's instructions. However, our General Counsel reserves the right not to forward to Board members any abusive, threatening or otherwise inappropriate materials.

Director Nomination Procedures

The nominating and governance committee has the responsibility for reviewing and recommending to the Board candidates for director positions. The nominating and governance committee will consider nominations made by stockholders. There are no differences in the manner in which the nomination and governance committee evaluates nominees for director based on whether the nominee is recommended by a stockholder. To have a candidate considered by the nominating and governance committee, a stockholder must submit its recommendation in writing in accordance with the procedures described in the section of this Proxy Statement entitled "Other Matters 2013 Stockholder Proposals or Nominations" and must include the information specified in our Bylaws, including information concerning the nominee and information about the stockholder's ownership of and agreements related to our stock.

The nominating and governance committee, in evaluating Board candidates, considers issues such as character, integrity, judgment, diversity, age, independence, skills, education, expertise, business acumen, business experience, length of service, understanding of our business and other commitments and the like, all in the context of an assessment of the needs of the Board at the time. The committee's objective is to maintain a Board of individuals of the highest personal character, integrity and ethical standards, and that reflects a range of professional backgrounds and skills relevant to our business. The nominating and governance committee does not have a formal policy with respect to diversity; however, the committee considers diversity in identifying nominees for director, including personal characteristics such as race and gender, as well as diversity in the experience and skills that contribute to the Board's performance of its responsibilities in the oversight of a global technology business.

The nominating and governance committee believes that the minimum qualifications for serving as a director are that a nominee demonstrate knowledge of our industry, accomplishment in his or her field, an ability to make a meaningful contribution to the Board's oversight of our business and affairs, independence under NASDAQ rules, lack of conflicts of interest, and a record and reputation for integrity and ethical conduct in both his or her professional and personal activities. In addition, the nominating and governance committee examines a candidate's specific experiences and skills, time availability in light of other commitments, interpersonal skills and compatibility with the Board, and ability to complement the competency and skills of the other Board members.

The nominating and governance committee annually reviews with the Board the requisite skills and characteristics of Board members, as well as the composition of the Board as a whole. This assessment includes a consideration of independence, diversity, age, skills, and experience and industry backgrounds in the context of the needs of the Board and the Company, as well as the ability of current and prospective directors to devote sufficient time to performing their duties in an effective manner. Directors are expected to exemplify the highest standards of personal and professional integrity, and to constructively challenge management through their active participation and questioning. In particular, the nominating and governance committee seeks directors with established strong professional reputations and expertise in areas relevant to the strategy and operations of our business.

Board Meetings and Attendance

The Board held seven meetings in 2012. During 2012, each member of the Board attended 75% or more of the aggregate of (i) the total number of Board meetings held during the period of such member's service and (ii) the total number of meetings held by all Board committees on which such member served during the period of such member's service.

Table of Contents**Director Attendance at Annual Meetings of Stockholders**

Directors are encouraged, but not required, to attend our annual stockholder meetings. Messrs. Sharples and Shepherd attended our 2012 annual meeting of stockholders.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is an officer or employee of HomeAway. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board or compensation committee.

Director Compensation

Our non-employee directors are entitled to receive an annual fee of \$25,000 for their services as directors. The non-employee directors receive an additional annual fee for their service on committees of the Board in accordance with the following table:

Committee	Chairperson Fee	Member Fee
Audit Committee	\$ 20,000	\$ 12,000
Compensation Committee	\$ 10,000	\$ 5,000
Nominating and Governance Committee	\$ 7,500	\$ 3,000

Non-employee directors will generally receive an initial option grant entitling the director to purchase that number of shares of our common stock equal to \$375,000 divided by the then current Black-Scholes value of our common stock. These options will vest monthly over three years, provided that the non-employee director continues to serve as a director through each such vesting date. Each non-employee director received their initial option grant during the month and year set forth below.

Director	Received Initial Option Grant
Lanny Baker	April 2011
Simon Breakwell	August 2012
Jeffrey D. Brody	March 2012
Woody Marshall	March 2012
Tina Sharkey	December 2012
Philip S. Siegel	March 2012
Robert Solomon	April 2009
Former Directors:*	
Todd Chaffee	March 2012
Susan Wojcicki	April 2011

* Mr. Chaffee resigned on August 29, 2012 and Ms. Wojcicki resigned on December 13, 2012.

In addition, starting in 2012, non-employee directors receive an annual option grant entitling each director to purchase that number of shares of our common stock equal to \$150,000 divided by the then current Black-Scholes value of our common stock. These options vest monthly over one year, provided that the non-employee director continues to serve as a director through each such vesting date. We do not pay meeting fees to our directors. We reimburse the directors for their travel and related expenses in connection with attending Board meetings and Board-related activities, such as HomeAway site visits, as well as continuing education programs.

Table of Contents**Director Compensation 2012**

The following table presents information regarding the compensation paid during 2012 to non-employee directors who served on the Board during the year. Neither Mr. Sharples nor Mr. Shepherd, our two employee directors, receives any compensation for their services as members of the Board.

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$)(1)	All Other Compensation (\$)	Total (\$)
Lanny Baker (2)	45,000	150,005		195,005
Simon Breakwell (3)	3,083	375,015		378,099
Jeffrey D. Brody (4)	35,000	496,271		531,271
Woody Marshall (4)	40,167	496,271		536,438
Tina Sharkey (5)		375,000		375,000
Philip S. Siegel (4)	21,000	496,271		517,271
Robert Solomon (6)	40,000	150,005		190,005
Former Directors				
Todd C. Chaffee (7)	20,000	496,271		516,271
Susan D. Wojcicki (8)	30,000	150,005		180,005

- (1) In accordance with SEC rules, the amounts reported in this column reflect the aggregate grant date fair value of option awards granted to non-employee directors during 2012 and computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. For a discussion of the assumptions and methodologies used to calculate the amounts referred to above, please see the discussion of option awards in the section entitled "Stockholders' Equity and Stock-Based Compensation" in Note 9 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K.
- (2) Mr. Baker was granted an automatic stock option grant following the 2011 Annual Meeting for 13,514 shares, which vests in 12 equal monthly installments starting on July 6, 2012. Mr. Baker was granted his initial stock option grant in 2011 when he joined the Board, and it is not included in this table.
- (3) Mr. Breakwell was appointed to the Board in August 2012. In connection with his appointment, Mr. Breakwell received an initial stock option grant of 32,135 shares, which vests in 36 equal monthly installments beginning on August 29, 2012. The fees paid to Mr. Breakwell in 2012 reflect pro-rated annual retainers for his service as a non-employee director and a member of the audit committee during 2012.
- (4) The stock option awards consist of (i) the initial stock option grant made to all members of the Board that were directors prior to both the appointment of Mr. Baker and Ms. Wojcicki and our initial public offering in June 2011; this initial grant was made on March 27, 2012 for 26,762 shares, which vests in 36 equal monthly installments beginning on March 27, 2012; and (ii) the automatic stock option grant made to all directors on the Board following the 2011 annual meeting of stockholders, which vest in 12 equal monthly installments starting on July 6, 2012.
- (5) Ms. Sharkey was appointed to the Board on December 13, 2012. In connection with her appointment, Ms. Sharkey received an initial stock option grant of 38,756 shares, which vests in 36 equal monthly installments beginning on January 13, 2012. Ms. Sharkey did not receive director fees in 2012.
- (6) Mr. Solomon's stock option award consists of the automatic stock option grant made to all directors on the Board following the 2011 annual meeting of stockholders, which vest in 12 equal monthly installments starting on July 6, 2012. Mr. Solomon received an initial stock option grant when he joined the Board in April 2009, and it is not included in this table.
- (7) Mr. Chaffee resigned on August 29, 2012. Fees include pro-rated fees for his service as a non-employee director and as a member of our compensation committee.
- (8) Ms. Wojcicki resigned on December 13, 2012. She was granted an automatic stock option grant following the 2011 annual meeting of stockholders for 13,514 shares, which vests in 12 equal monthly installments starting on July 6, 2012. Ms. Wojcicki was granted her initial stock option grant in 2011 when she joined the Board, and it is not included in this table.

Table of Contents**EXECUTIVE OFFICERS**

The following sets forth certain information regarding our executive officers. Information pertaining to Messrs. Sharples and Shepherd, each of whom is both an officer and a director of HomeAway, may be found in the section of this Proxy Statement entitled Proposal One: Election of Directors Directors .

Name	Position with HomeAway	Age as of the Annual Meeting
Brian H. Sharples	Co-Founder, President, Chief Executive Officer & Chairman	52
Lynn Atchison	Chief Financial Officer & Secretary	53
Brent Bellm	Chief Operating Officer	41
Ross A. Buhrdorf	Chief Technology Officer	49
Thomas Hale	Chief Product Officer	44
Carl G. Shepherd	Co-Founder, Chief Strategy & Development Officer & Director	60

Lynn Atchison has served as our Chief Financial Officer since August 2006. Prior to joining us, Ms. Atchison was Chief Financial Officer of Infoglide Software Corporation, an enterprise software provider, from February 2004 to August 2006. From October 2003 to January 2004, Ms. Atchison worked as a business consultant for Range Online Media, an Internet marketing firm. From May 1996 to April 2003, Ms. Atchison served as Chief Financial Officer and Vice President of Finance and Administration of Hoover's, Inc., a provider of online business information. From November 1994 to April 1996, Ms. Atchison served as Chief Financial Officer of Travelogix, Inc., a provider of travel ticketing systems software. From May 1990 to November 1994, Ms. Atchison worked as a consultant providing controller functions for software, technology and non-profit organizations, including Trilogy Development, a provider of sales automation software, and Austin American Technology. Prior to that, Ms. Atchison worked for eight years as an accountant with Ernst & Young LLP. Ms. Atchison holds a B.B.A. in accounting from Stephen F. Austin State University.

Brent Bellm has served as our Chief Operating Officer since June 2010. From October 2009 to June 2010, Mr. Bellm served as Vice President of Global Product and Experience of PayPal, Inc., an online payment services provider and subsidiary of eBay Inc., and as Chief Executive Officer of PayPal (Europe) Ltd. from October 2005 to September 2009. Before joining PayPal, Mr. Bellm served as Director of Corporate Strategy of eBay from April 2001 to December 2002. Previously, Mr. Bellm held positions at McKinsey & Company, focusing on the retail, e-commerce and payment industries, and at Goldman, Sachs & Co. Mr. Bellm holds a B.A. in economics and international relations from Stanford University and an M.B.A. from Harvard Business School.

Ross A. Buhrdorf has served as our Chief Technology Officer since July 2005. Prior to joining us, Mr. Buhrdorf served as Vice President of Engineering of BetweenMarkets, Inc., a platform for ensuring business-to-business information quality, from June 2004 to June 2005. From 2000 to 2004, Mr. Buhrdorf served as Vice President of Engineering of Salion, Inc., an enterprise CRM solution for supply-side manufacturing, and from 1997 to 2000 he served as Vice President of Engineering of Excite.com, a search engine company. Since 1993, Mr. Buhrdorf also has owned and consulted with a variety of software companies. Mr. Buhrdorf holds a B.S. in computer science from the University of Texas at Austin.

Thomas Hale has served as our Chief Product Officer since June 2010. Prior to joining us, Mr. Hale served as Chief Product Officer of Linden Research, Inc., an online game and virtual community provider, from October 2008 to May 2010. From December 2007 to October 2008, Mr. Hale served as an Entrepreneur in Residence at Redpoint Ventures, a venture capital firm. From September 1995 to October 2007, Mr. Hale held various positions, including Senior Vice President of the Knowledge Worker Business Unit at Adobe Systems Incorporated and Macromedia, Inc. Mr. Hale has served on the board of directors of IntraLinks, Inc., a provider of Software-as-a-Service solutions, since May 2008. Mr. Hale holds a B.A. in history and literature from Harvard University.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of April 12, 2013 for each person known by us to beneficially own more than 5% of our outstanding shares of common stock, each of our named executive officers, each of the members of our Board and all of the members of our Board and executive officers as a group.

We have determined beneficial ownership in accordance with SEC rules. The information does not necessarily indicate beneficial ownership for any other purpose. Except as indicated in the footnotes to this table, and pursuant to state community property laws, we believe, based on the information furnished to us, that the persons named in the table have sole voting and investment power with respect to all shares reflected as beneficially owned by them. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock that could be issued upon the exercise of outstanding options held by that person that are currently exercisable or exercisable within 60 days of April 12, 2013 are considered outstanding. These shares, however, are not considered outstanding when computing the percentage ownership of any other person.

Percentage of ownership is based on 84,924,114 shares of our common stock outstanding on April 12, 2013.

Unless otherwise indicated, the address for each of the stockholders in the table below is c/o HomeAway, Inc., 1011 W. Fifth Street, Suite 300, Austin, Texas 78703.

Name of Beneficial Owner	Shares Beneficially Owned	Percent of Common Stock Outstanding
5% Stockholders:		
Entities affiliated with Austin Ventures (1)	13,939,174	16.4%
Entities affiliated with Redpoint Ventures (2)	4,230,164	5.0%
Entities affiliated with Technology Crossover Ventures (3)	8,163,507	9.6%
Entities affiliated with Institutional Venture Partners (4)	6,558,910	7.7%
Entities affiliated with Wells Fargo & Company (5)	6,248,441	7.4%
Named Executive Officers, Directors and Nominees:		
Brian H. Sharples (6)	1,907,800	2.2%
Lynn Atchison (7)	400,814	*
Brent Bellm (8)	253,420	*
Ross A. Buhrdorf (9)	239,671	*
Thomas Hale (10)	387,848	*
Carl G. Shepherd (11)	528,243	*
Lanny Baker (12)	37,715	*
Simon Breakwell		
Jeffrey D. Brody (13)	4,425,902	5.2%
Woody Marshall (14)	8,185,923	9.6%
Tina Sharkey		
Philip S. Siegel (15)	755,718	*
Robert Solomon (16)	43,514	*
All directors and executive officers as a group (13 people) (17)	17,166,568	19.7%

- (1) Includes 13,282,377 shares held by Austin Ventures VIII, L.P. and 656,797 shares held by Austin Ventures X, L.P. The sole general partner of Austin Ventures VIII, L.P. is AV Partners VIII, L.P. Joseph C. Aragona, Kenneth P. DeAngelis, John D. Thornton and Christopher A. Pacitti are the general partners of AV Partners VIII, L.P. and may be deemed to share voting and/or dispositive power over the shares held by Austin Ventures VIII, L.P. The general partner of Austin Ventures X, L.P. is AV Partners X, L.P. and the general partner of AV Partners X, L.P. is AV Partners X, LLC. Joseph C. Aragona, Kenneth P. DeAngelis, John D. Thornton, Christopher A. Pacitti and Philip S. Siegel are members of AV Partners X,

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- LLC and may be deemed to share voting and/or dispositive power over the shares held by Austin Ventures X, L.P. The address of Austin Ventures VIII, L.P. and Austin Ventures X, L.P., or the Austin Ventures Funds, is 300 West 6th Street, Suite 2300, Austin, Texas 78701, Attention: Kenneth P. DeAngelis.
- (2) Includes 1,939,955 shares held by Redpoint Ventures I, L.P., 1,715,020 shares held by Redpoint Ventures II, L.P., 252,317 shares held by Redpoint Technology Partners Q-1, L.P., 187,823 shares held by Redpoint Omega, L.P., 49,743 shares held by Redpoint Associates I, LLC, 39,655 shares held by Redpoint Associates II, LLC, 40,340 shares held by Redpoint Technology Partners A-1, L.P. and 5,311 shares held by Redpoint Omega Associates, LLC. Redpoint Ventures I, LLC is the general partner of each of Redpoint Ventures I, L.P., Redpoint Technology Partners A-1, L.P., and Redpoint Technology Partners Q-1, L.P., and the manager of Redpoint Associates I, LLC. Redpoint Ventures II, LLC is the general partner of Redpoint Ventures II, L.P. Voting and dispositive decisions with respect to shares held by each of Redpoint Ventures I, L.P., Redpoint Technology Partners A-1, L.P., Redpoint Technology Partners Q-1, L.P., Redpoint Ventures II, L.P., Redpoint Associates I, LLC and Redpoint Associates II, LLC are shared by Jeffrey D. Brody, R. Thomas Dyal, Timothy M. Haley, G. Bradford Jones, John L. Walecka and Geoffrey Y. Yang in their capacities as managing members of each of Redpoint Ventures I, LLC, Redpoint Ventures II, LLC, and Redpoint Associates II, LLC. Redpoint Omega, LLC is the general partner of Redpoint Omega, L.P. Voting and dispositive decisions with respect to shares held by Redpoint Omega, L.P. and Redpoint Omega Associates, LLC are shared by Jeffrey D. Brody, R. Thomas Dyal, Timothy M. Haley, G. Bradford Jones, John L. Walecka, Geoffrey Y. Yang, Christopher B. Moore and W. Allen Beasley in their capacities as managing members of each of Redpoint Omega, LLC and Redpoint Omega Associates, LLC. The address of the entities affiliated with Redpoint Ventures, or the Redpoint Ventures Funds, is 3000 Sand Hill Road, Building 2, Suite 290, Menlo Park, California 94025, Attention: Jeffrey D. Brody.
- (3) Includes 3,815,651 shares held by TCV VII, L.P., 2,314,213 shares held by TCV VI, L.P., 1,981,510 shares held by TCV VII (A), L.P., and 52,133 shares held by TCV Member Fund, L.P. Technology Crossover Management VI, L.L.C., or TCM VI, as the general partner of TCV VI, L.P. and a general partner of TCV Member Fund, L.P., may be deemed to have the sole voting and dispositive power over the shares held by TCV VI, L.P. and certain of the shares held by TCV Member Fund, L.P. Jay C. Hoag, Richard H. Kimball, John L. Drew, Jon Q. Reynolds Jr. and Robert W. Trudeau, or the TCM VI Members, are Class A Members of TCM VI and limited partners of TCV Member Fund, L.P. and may be deemed to share voting and dispositive power over the shares held by TCV VI, L.P. and certain of the shares held by TCV Member Fund, L.P. Christopher P. Marshall, John C. Rosenberg and David L. Yuan are Assignees of TCM VI. Technology Crossover Management VII, Ltd., or Management VII, as a general partner of TCV Member Fund, L.P. and the general partner of Technology Crossover Management VII, L.P., or TCM VII, which is the direct general partner of each of TCV VII, L.P. and TCV VII (A), L.P. may be deemed to have the sole voting and dispositive power over the shares held by TCV VII, L.P. and TCV VII (A), L.P. and certain of the shares held by TCV Member Fund, L.P. The TCM VI Members, Christopher P. Marshall, Timothy P. McAdam, John C. Rosenberg and David L. Yuan, collectively the Management VII Members, are the Class A Directors of Management VII and limited partners of TCM VII and TCV Member Fund, L.P. and share voting and dispositive power over the shares held by TCV VII, L.P. and TCV VII (A), L.P. and certain of the shares held by TCV Member Fund, L.P. The address of the entities affiliated with Technology Crossover Ventures, or TCV, is 528 Ramona Street, Palo Alto, California 94301.
- (4) Includes 3,058,910 shares held by Institutional Venture Partners XII, L.P. or IVP XII, 3,017,000 shares held by Institutional Venture Partners XI, L.P., or IVP XI, and 483,000 shares held by Institutional Venture Partners XI GmbH & Co Beteiligungs KG, or IVP XI KG. The general partner of IVP XII is Institutional Venture Management XII, LLC. The general partner of IVP XI and the managing limited partner of IVP XI KG is Institutional Venture Management XI, LLC. Todd C. Chaffee, Norman A. Fogelsong, Stephen J. Harrick, J. Sanford Miller and Dennis B. Phelps are the managing directors of Institutional Venture Management XII, LLC and share voting and dispositive power over the shares held by IVP XII. Todd C. Chaffee, Norman A. Fogelsong, Stephen J. Harrick, J. Sanford Miller and Dennis B. Phelps are the managing directors of Institutional Venture Management XI, LLC and share voting or dispositive

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- power over the shares held by each of IVP XI and IVP XI KG. The address of entities affiliated with Institutional Venture Partners, or IVP Funds, is 3000 Sand Hill Road, Building 2, Suite 250, Menlo Park, California 94025, Attention: Melanie Chladek.
- (5) Based on a Schedule 13G dated March 29, 2013, as filed with the Securities and Exchange Commission, Wells Fargo & Company reported that it had sole voting and dispositive power over 65,542 shares, shared voting power over 5,553,816 shares and shared dispositive power over 6,182,899 shares as of December 31, 2012 and that its address is 420 Montgomery Street, San Francisco, CA 94104.
- (6) Includes 740,489 shares held by Moose Pond Investments, LP, 190,476 shares held by Sharples Venture Partners, LP, 103,841 shares held by Brian H. Sharples, 63,194 shares held by Brian H. Sharples as Trustee of the Sharples 2012 Irrevocable Trust DTD 12/10/2012 FBO Hawken Drake Sharples Trust, or the Hawken Sharples FBO Trust, 63,194 shares held by Brian H. Sharples as Trustee of the Sharples 2012 Irrevocable Trust DTD 12/10/2012 FBO Chloe Marie Sharples, or the Chloe Sharples FBO Trust, 63,194 shares held by Brian H. Sharples as Trustee of the Sharples 2012 Irrevocable Trust DTD 12/10/2012 FBO Emma Jette Sharples, or the Emma Sharples FBO Trust, 11,403 shares held by Brian H. Sharples as Trustee of The Hawken Drake Sharples 2009 Trust, or the Hawken Sharples Trust, 11,402 shares held by Brian H. Sharples as Trustee of The Chloe Marie Sharples 1998 Trust, or the Chloe Sharples Trust, 11,402 shares held by Brian H. Sharples as Trustee of The Emma Jette Sharples 2002 Trust, or the Emma Sharples Trust and 649,205 shares issuable upon exercise of options held by Mr. Sharples that are exercisable within 60 days of April 12, 2013. Mr. Sharples is the limited partner of Moose Pond Investments, LP and the sole manager of Moose Pond Mgt., LC, which is the general partner of Moose Pond Investments, LP, the general partner of Sharples Venture Partners, LP and the trustee of the Hawken Sharples FBO Trust, the Chloe Sharples FBO Trust, the Emma Sharples FBO Trust, the Hawken Sharples Trust, the Chloe Sharples Trust and the Emma Sharples Trust. Mr. Sharples has voting and dispositive power over the shares held by Moose Pond Investments, LP, Sharples Venture Partners, LP, the Hawken Sharples Trust, the Chloe Sharples Trust and the Emma Sharples Trust.
- (7) Includes 318,416 shares issuable upon the exercise of options held by Ms. Atchison that are exercisable within 60 days of April 12, 2013.
- (8) Includes 31,250 shares that are subject to forfeiture to us, which forfeiture restriction lapses as to 2,083 shares each month and 195,117 shares issuable upon the exercise of options held by Mr. Bellm that are exercisable within 60 days of April 12, 2013.
- (9) Includes 222,421 shares issuable upon the exercise of options held by Mr. Buhrdorf that are exercisable within 60 days of April 12, 2013.
- (10) Includes 15,625 shares that are subject to forfeiture to us, which forfeiture restriction lapses as to 1,042 shares each month and 323,113 shares issuable upon the exercise of options held by Mr. Hale that are exercisable within 60 days of April 12, 2013.
- (11) Includes 138,398 shares issuable upon the exercise of options held by Mr. Shepherd that are exercisable within 60 days of April 12, 2013.
- (12) Includes 37,715 shares issuable upon the exercise of options held by Mr. Baker that are exercisable within 60 days of April 12, 2013.
- (13) Includes all of the shares referred to in footnote number 2 above. Also includes 147,126 shares held by the Brody Family Trust U/D/T dated July 1, 1994, or the Family Trust, 23,444 shares held by the Brody Children s Partnership, or the Children s Partnership, 1,247 shares held by Koga Partners, L.P., or Koga, and 23,921 shares issuable upon the exercise of options held by Mr. Brody that are exercisable within 60 days of April 12, 2013. Mr. Brody is a trustee and beneficiary of the Family Trust, a general partner of the Children s Partnership and a general partner of Koga has voting and dispositive power over the shares held by the Family Trust, the Children s Partnership and Koga.
- (14) Includes all of the shares referred to in footnote number 3 above. Also includes 1,295 shares held by the Marshall Carroll 2000 Trust and 21,121 shares issuable upon the exercise of options held by Mr. Marshall that are exercisable within 60 days of April 12, 2013. Christopher P. Marshall is a trustee of the Marshall Carroll 2000 Trust and may be deemed to beneficially own certain securities held by the Marshall Carroll 2000 Trust.

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- (15) Includes 656,797 shares held by Austin Ventures X, L.P., 75,000 shares held by Philip Siegel and 23,921 shares issuable upon the exercise of options held by Mr. Siegel that are exercisable within 60 days of April 12, 2013. The general partner of Austin Ventures X, L.P. is AV Partners X, L.P., and the general partner of AV Partners X, L.P. is AV Partners X, LLC. Joseph C. Aragona, Kenneth P. DeAngelis, John D. Thornton, Christopher A. Pacitti and Philip S. Siegel are members of AV Partners X, LLC and share voting and/or dispositive power over the shares held by Austin Ventures X, L.P. Mr. Siegel's address is 300 West 6th Street, Suite 2300, Austin, Texas 78701.
- (16) Includes 43,514 shares issuable upon the exercise of options held by Mr. Solomon that are exercisable within 60 days of April 12, 2013.
- (17) Includes 791,372 shares held of record by our directors and executive officers, 1,996,862 shares issuable upon the exercise of options held by our directors and executive officers that are exercisable within 60 days of April 12, 2013 and 14,378,334 shares held by entities over which our directors and executive officers may be deemed to have voting and dispositive power.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of securities ownership and changes in such ownership with the SEC. Officers, directors and greater than ten percent stockholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to us or written representations that no Forms 5 were required, we believe that all Section 16(a) filing requirements were timely met during 2012, except that Forms 4 were filed late for the following officers and directors for the following number of transactions: Brian Sharples: one Form 4 covering one transaction, Ross Buhrdorf: three Forms 4 covering six transactions, Simon Breakwell: one Form 4 covering one transaction, Tina Sharkey: one Form 4 covering one transaction, Carl Shepherd: two Forms 4 covering four transactions, Brent Bellm: one Form 4 covering two transactions, Thomas Hale: one Form 4 covering one transaction and Jeffrey Brody: one Form 4 covering three transactions

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We have been a party to the following transactions since January 1, 2012, in which the amount involved exceeded or will exceed \$120,000, and in which any director, executive officer or holder of more than 5.0% of any class of our voting stock, or any member of the immediate family of or entities affiliated with any of them, each a related party, had or will have a material interest.

Investors Rights Agreement

In March 2011, we entered into an amended and restated investors rights agreement with certain of our stockholders, including individuals and entities affiliated with Austin Ventures, Redpoint Ventures, Institutional Venture Partners, Technology Crossover Ventures, Tiger Global, Brian H. Sharples, Carl G. Shepherd and Philip S. Siegel. The amended and restated investors rights agreement, among other things grants such stockholders certain registration rights with respect to shares of our common stock.

Stock Option and Restricted Stock Grants

Certain stock option and restricted stock grants to our directors and named executive officers and related stock option and restricted stock grant policies are described in the sections of this Proxy Statement entitled Corporate Governance Director Compensation 2012 and Executive Compensation Grants of Plan-Based Awards, respectively.

Employment and Change of Control Agreements

We have entered into employment and change of control arrangements with certain of our executive officers as described in the section of this Proxy Statement entitled Executive Compensation Employment Agreements.

Director Compensation

During 2012, our non-employee directors received the compensation described in the section of this Proxy Statement entitled Corporate Governance Director Compensation.

Indemnification of Officers and Directors

Our amended and restated bylaws provide that we will indemnify each of our directors and officers to the fullest extent permitted by the Delaware General Corporation Law. Further, we have entered into indemnification agreements with each of our directors and officers. These agreements provide for the indemnification of our

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directors, officers and some employees for all reasonable expenses and liabilities incurred in connection with any action or proceeding brought against them by reason of the fact that they are or were our agents. We believe that these indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors and officers liability insurance. For further information, see the section of this Proxy Statement entitled Executive Compensation Limitation on Liability and Indemnification Matters.

Policies and Procedures for Related Party Transactions

As provided by our audit committee charter, our audit committee must review and approve in advance any related party transaction. All of our directors, officers and employees are required to report to our audit committee any such related party transaction prior to its completion.

Code of Business Ethics and Conduct

Our Board adopted a code of business ethics and conduct for all employees, including our executive officers, and directors. The code of business ethics and conduct is available without charge upon request in writing to HomeAway, Inc., 1011 W. Fifth Street, Suite 300, Austin, Texas 78703, Attn: General Counsel or on the investor relations portion of our website at investors.homeaway.com. We will disclose on our website at www.homeaway.com, to the extent and in the manner permitted by Item 5.05 of Form 8-K, the nature of any amendment to this code of business ethics and conduct (other than technical, administrative, or other non-substantive amendments), our approval of any material departure from a provision of this code of business ethics and conduct, and our failure to take action within a reasonable period of time regarding any material departure from a provision of this code of business ethics and conduct that has been made known to any of our executive officers.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section explains how our executive compensation program is designed and operates with respect to our named executive officers listed in the Summary Compensation Table below. Our named executive officers in 2012 were:

Brian H. Sharples, our Chief Executive Officer, or CEO;

Lynn Atchison, our Chief Financial Officer, or CFO;

Brent Bellm, our Chief Operating Officer;

Ross A. Buhrdorf, our Chief Technical Officer; and

Carl G. Shepherd, our Chief Strategy and Development Officer.

This Compensation Discussion and Analysis provides an overview of our executive compensation philosophy, the overall objectives of our executive compensation program and each compensation component that we provide. In addition, we explain how and why the compensation committee of our Board arrived at specific compensation policies and decisions involving our named executive officers for the fiscal year ended December 31, 2012.

This Compensation Discussion and Analysis contains forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. The actual compensation programs that we adopt in the future may differ materially from currently planned programs as summarized in this discussion.

Executive Compensation Philosophy and Objectives

We operate the world's largest online marketplace for the vacation rental industry. As of December 31, 2012, we operated our online marketplace through 44 websites in 13 languages and provided over 710,000 listings for vacation rentals located in 171 countries. To effectively operate in this dynamic and rapidly changing market and to continue to grow our business, we need a highly talented and seasoned team of executives and business professionals.

We compete with many other companies in seeking to attract and retain a skilled management team. To meet this challenge, we have adopted a compensation philosophy designed to offer our named executive officers compensation and benefits that are market competitive and that meet our goals of attracting, retaining and motivating highly skilled individuals to help us achieve our financial and strategic objectives.

Our executive compensation program is designed to achieve the following principal objectives:

attract and retain talented and experienced individuals;

offer total compensation opportunities that take into consideration the practices of other comparably positioned Internet and technology companies;

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directly and substantially link total compensation to measurable corporate and individual performance;

create and sustain a sense of urgency surrounding strategy execution and the achievement of key business objectives; and

strengthen the alignment of the interests of our named executive officers and stockholders through equity-based long-term incentives and reward our named executive officers for creating long-term stockholder value.

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Compensation Program Design

We conducted our initial public offering of equity securities on June 28, 2011. Consequently, 2012 was our first full year as a publicly traded company. In designing our executive compensation program for 2012, we were cognizant of our need to motivate our named executive officers to meet our short-term goals and long-term strategic objectives as a publicly traded company. Thus, we continued to emphasize the use of equity in the form of options to purchase shares of our common stock and restricted stock unit (RSU) awards covering shares of our common stock to incent our named executive officers to focus on the growth of our overall enterprise value and, correspondingly, to create sustainable long-term value for our stockholders. We believe that stock options and RSU awards offer our named executive officers a valuable long-term incentive that aligns their interests with the interests of our stockholders.

We also offer cash compensation to our named executive officers in the form of base salaries and annual cash bonus opportunities at levels that we believe help us provide competitive compensation packages. To emphasize our annual goals, we set the target total cash compensation opportunities of our named executive officers at or above the 50th percentile of the competitive market while maintaining base salaries at the median of the competitive market. Generally, we have structured our annual cash bonus opportunities to focus on the achievement of specific short-term financial and strategic goals that will further our longer-term growth objectives.

In 2012, the compensation committee considered competitive compensation data from companies within our industry (which are discussed in more detail below in the section entitled Compensation-Setting Process Use of Competitive Data) to assist it in establishing cash compensation levels for our named executive officers. The data was compiled by Compensia, Inc., a national compensation consulting firm (Compensia), engaged by the compensation committee. Our compensation peer group consists of publicly traded companies with business models and financial and size characteristics similar to ours, with an emphasis on technology companies. Using this information as a guideline, the compensation committee placed an emphasis on remaining competitive in our market and differentiating total cash compensation through the use of an annual incentive plan. Equity awards were granted by the compensation committee on a discretionary basis for the purpose of retaining our named executive officers and aligning their interests with our long-term strategic and operational objectives.

At our annual meeting of stockholders in 2012, our stockholders adopted a three-year interval for management say on pay review. Accordingly, our stockholders last voted on such matter at our annual meeting of stockholders in 2012 and approved, on an advisory (non-binding) basis and with over 94% of the votes cast in favor of the proposal, the compensation of our named executive officers. The compensation committee considered the results of this vote in connection with the compensation decisions it made during 2012 following the vote.

Compensation-Setting Process

Role of the Compensation Committee

The compensation committee is responsible for overseeing our executive compensation philosophy and administering our executive compensation program, as well as determining and approving the compensation for our named executive officers. The compensation committee regularly reports to our full Board on its deliberations, but is ultimately responsible for compensation decisions, as described in the compensation committee charter. See the summary description of the compensation committee charter in the section of this Proxy Statement entitled Corporate Governance Committees of the Board of Directors.

The compensation committee reviews, on at least an annual basis, our executive compensation program, including any incentive compensation plans, to determine whether they are appropriate, properly coordinated, and achieve their intended purposes and recommends to our Board any modifications or new plans or programs. It also reviews the compensation of our named executive officers and makes decisions about the various components that comprise their compensation packages.

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Role of Management

In carrying out its responsibilities, the compensation committee works with members of our management team, including our CEO. Typically, our management team assists the compensation committee by providing information about our corporate financial and individual performance, competitive market data and management's perspective and recommendations on compensation matters.

Typically, our CEO makes recommendations to the compensation committee regarding the compensation of our employees, including our named executive officers (except with respect to his own compensation), and attends compensation committee meetings (except with respect to discussions involving his own compensation).

While the compensation committee solicits and reviews our CEO's recommendations and proposals with respect to compensation-related matters, the compensation committee only uses these recommendations and proposals as one factor in making compensation decisions.

Role of Compensation Consultant

The compensation committee is authorized to retain the services of compensation consultants and other advisors from time to time, as it sees fit, in connection with carrying out its responsibilities, including the adoption of cash and equity compensation plans and arrangements and related policies.

Starting in November 2010, the compensation committee has engaged Compensia to assist it each year in reviewing and making appropriate changes to our executive compensation guiding principles, to update our compensation peer group; to evaluate the competitiveness of our named executive officers' compensation and to assist it in the course of its deliberations concerning executive compensation decisions. Compensia serves at the discretion of the compensation committee.

The compensation committee has assessed the independence of Compensia taking into account, among other things, the factors set forth in Exchange Act Rule 10C-1 and the NASDAQ listing standards, and has concluded that no conflict of interest exists with respect to the work that Compensia performs for the compensation committee.

Use of Competitive Data

To assess the competitiveness of our executive compensation program and compensation levels, the compensation committee directed Compensia to examine the executive compensation practices of a peer group of software and Internet companies. Compensation data for the peer group companies were gathered from public filings and from Compensia's proprietary compensation databases. Peer group data are used to assess compensation levels and to assist the compensation committee in setting compensation levels for 2012.

The companies comprising the compensation peer group were selected on the basis of their similarity to us in size (as determined by revenue and market capitalization, when available), industry sector and product or service similarity. In some cases, the compensation peer group included companies that may compete with us for talent or may otherwise influence the market compensation for our employees.

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During 2012, the compensation peer group was comprised of the following companies:

Ancestry.com Inc.	Rovi Corporation
Ariba, Inc.	
Bankrate	
Fortinet, Inc.	
Kayak Software Corporation	
LinkedIn Corp.	
NetSuite Inc.	Shutterfly, Inc.
OpenTable, Inc.	Solarwinds, Inc.
Pandora Media Inc.	SuccessFactors, Inc.
Qlik Technologies, Inc.	
RealPage, Inc.	WebMD Health Corp.
	Zynga, Inc.

The compensation committee reviews the compensation peer group at least annually and makes adjustments to its composition as necessary.

In addition, as part of the assessment of current market practices for executive compensation that is reviewed by the compensation committee, Compensia examined and included relevant data from the most recent Radford Executive Survey and the IPAS High Technology Survey, with an emphasis on companies with revenues comparable to ours. The compensation committee reviewed the data compiled by Compensia from these surveys and the peer group and used it to assess whether the compensation components we provide to each executive officer were in the percentiles targeted by the committee. This analysis helped the committee to determine the changes in compensation discussed below.

Executive Compensation Program Components

The following describes each component of our executive compensation program, the rationale for each component and how compensation amounts and awards are determined.

Base Salary

Base salary represents the fixed portion of our named executive officers' compensation, which we view as an important element to attract, retain and motivate highly talented executives. Base salaries represent a modest portion of the total compensation opportunity for our named executive officers.

In 2012, the compensation committee conducted a review of each named executive officer's base salary in consultation with Compensia and with input from our CEO. The compensation committee then considered and made adjustments as it determined to be reasonable and necessary to reflect the scope of each named executive officer's performance, individual contributions, responsibilities, experience, prior base salary level, position (in the case of a promotion) and market conditions. In making these adjustments, the compensation committee also considered the median of the base salary range of the companies in the compensation peer group. The changes in the base salaries of the named executive officers from 2011 to 2012 are set forth in the following table and below in the section entitled Summary Compensation Table For Years Ended December 31, 2012, 2011 and 2010.

Named Executive Officer	2011 Base Salary	2012 Base Salary
Brian Sharples	\$ 450,000	\$ 500,000
Lynn Atchison	\$ 309,000	\$ 318,700
Brent Bellm	\$ 339,000	\$ 360,000
Ross Buhrdorf	\$ 250,000	\$ 285,000
Carl Shepherd	\$ 309,000	\$ 318,700

Table of Contents*Annual Cash Bonuses*

We use annual cash bonuses to motivate our named executive officers to achieve both short-term financial and strategic goals and longer-term growth and other objectives. Under our 2012 Executive Officer Performance Bonus Plan, the compensation committee determines cash bonus payments for our CEO and other named executive officers based on achievement of corporate financial targets established in our annual operating plan and individual performance requirements, as described below.

2012 Target Bonus Opportunities

Under our 2012 Executive Officer Performance Bonus Plan, our annual cash bonus opportunities were designed to reward our named executive officers based on our performance and, for all named executive officers other than our CEO, the individual named executive officer's contribution to that performance. The compensation committee determined that the target annual cash bonus opportunity for each of our named executive officers should be determined as a percentage of his or her base salary. The target annual cash bonus opportunities for the named executive officers were as follows:

Named Executive Officer	2011 Target Annual Cash Bonus Opportunity	2012 Target Annual Cash Bonus Opportunity
Brian H. Sharples	100%	100%
Lynn Atchison	50%	60%
Brent Bellm	50%	75%
Ross A. Buhrdorf	50%	60%
Carl G. Shepherd	50%	60%

With respect to each named executive officer, the amount of his or her target annual cash bonus opportunity was established by the compensation committee in consultation with our CEO (except with respect to himself) and was determined based on a variety of factors, including his or her past performance, anticipated future contributions, position, responsibilities and experience. Based on these factors and to keep the named executive officers in the median range of the competitive market, the compensation committee decided on the annual cash bonus opportunities set forth above. In the same process, the compensation committee further determined to weight each annual cash bonus opportunity based 80% on corporate performance measures and based 20% on individual performance measures as described below.

Corporate Performance Measures

Under the 2012 Executive Officer Performance Bonus Plan, the compensation committee established the following corporate financial measures that supported our annual operating plan and enhanced long-term value creation as the principal performance measures for making annual cash bonus determinations:

Corporate Measure	Description
GAAP Revenue	Our total revenues as determined under Generally Accepted Accounting Principles (GAAP)
Adjusted EBITDA	Our total net income (loss) plus depreciation; amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based compensation expense; and net of any foreign exchange income or expense

The compensation committee selected GAAP revenue as a performance measure because it is a key indicator of our overall performance. Adjusted EBITDA was selected by the compensation committee because it is used by management, together with other GAAP financial measures, to track the underlying operating

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profitability and efficiency of the business. The compensation committee determined to weight each of these measures equally, because they were both deemed to be critical to our operational efficiency and the long-term success of the organization.

Individual Performance Measures

To achieve our compensation objective of rewarding individual performance, our CEO developed individual performance objectives, which we refer to as management by objective metrics, or MBOs, for each of our other named executive officers, which were then recommended to and approved by our compensation committee. Our compensation committee established the MBOs for our CEO. Each named executive officer's performance as measured by the achievement of his or her MBOs represented up to 20% of such named executive officer's total annual cash bonus opportunity, based on their performance rating.

Our CEO evaluated the achievement of Ms. Atchison and Messrs. Bellm and Shepherd against his or her MBOs and formulated recommendations for the individual performance portion of such named executive officer's annual cash bonus payments for consideration by the compensation committee. Mr. Hale, our Chief Product Officer, made such evaluation (in consultation with our CEO) with respect to Mr. Buhrdorf because Mr. Buhrdorf reports to Mr. Hale. Our CEO's and Mr. Hale's recommendations were based on their subjective assessments of the individual's contributions during the year and internal equity between named executive officers. In the case of our CEO, the compensation committee evaluated his performance against his MBOs. This evaluation included consulting with the other independent members of our Board regarding our CEO's performance.

The possible performance scores did not change in 2012 from those in 2011 and were as follows:

MBO Performance Score	Weighting
5: Exceeds most expectations	30%
4: Exceeds some expectations	25%
3: Meets high expectations	20%
2: Meets some expectations	15%
1: Doesn't meet expectations	0%

The performance objectives varied among these individuals according to the functional role and responsibility of each named executive officer. The following summarizes the MBOs (and the related performance assessment) for the named executive officers for 2012:

Brian H. Sharples, Chief Executive Officer Mr. Sharples' key goals were to achieve operational targets for our overall business, lead the effort to build, maintain and develop a world-class organization to achieve the Company's long-term goals, and to effectively serve shareholder interests as well as communicate to shareholders and manage their expectations. Based on the compensation committee's assessment of these objectives, Mr. Sharples was given a performance score of 3 for his annual cash bonus.

Lynn Atchison, Chief Financial Officer Ms. Atchison's key goals were to, successfully lead a processes to obtain compliance for the company with the requirements of the Sarbanes-Oxley Act of 2002 and to meet or exceed filing timeline requirements for public financial reporting in 2012 without any significant issues, expand the financial team in Europe with qualified personnel who operate effectively, drive the rollout of improvements in business systems to support orders, billing and accounting and to provide executive oversight of the human resources function with a goal toward retaining and awarding top talent. Based on our compensation committee's assessment of these objectives (in consultation with our CEO), Ms. Atchison was given a performance score of 3 for her annual cash bonus.

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Brent Bellm, Chief Operating Officer Mr. Bellm's key goals were to successfully execute our 2012 strategic plan, including launching new products and services, driving the achievement of internal sales targets, structuring and maintaining a high performing global matrix organization and driving excellence in his organization. Based on our compensation committee's assessment of these objectives (in consultation with our CEO), Mr. Bellm was given a performance rating of 3 for his annual cash bonus.

Ross A. Buhrdorf, Chief Technology Officer Mr. Buhrdorf's key goals were to successfully lead efforts to establish a culture of excellence for technology product releases, release critical technology deliverables on time, focus on customer technology needs and obtain insight, release key traveler technology enhancements, successfully lead property management software efforts and to establish a highly efficient and effective technology organization. Based on our compensation committee's assessment of these objectives (in consultation with Mr. Hale and our CEO), Mr. Buhrdorf was given a performance rating of 3 for his annual cash bonus.

Carl G. Shepherd, Chief Strategy and Development Officer Mr. Shepherd's key goals were to provide ongoing assessment and execution of worldwide merger and acquisition and strategic partnership opportunities, successfully drive government relations efforts to promote fair regulation, provide oversight for the global legal team in its goal of providing excellent legal services, including reducing risk and being proactive with respect to actual or potential legal issues and to consult with and advise the trust and safety team to address phishing risks. Based on our compensation committee's assessment of these objectives (in consultation with our CEO), Mr. Shepherd was given a performance rating of 3 for his annual cash bonus.

Award Decisions and Analysis

In March 2013, the compensation committee determined the amount of the annual cash bonus payments for our named executive officers for 2012. In making these decisions, the compensation committee consulted with our CEO with respect to the named executive officers other than himself and evaluated our financial performance and the level of achievement of the corporate financial measures for the year.

Both the corporate financial measures and related target levels and individual performance requirements are based on our annual operating plan and are meant to be challenging to achieve but within reach. In 2012, the corporate financial measures target levels were achieved at a 98% level. In addition, each of the named executive officers achieved their individual performance requirements as described below. The compensation committee retained, but did not exercise, discretion to adjust corporate financial measure target levels and individual performance requirements.

With respect to the corporate performance measures, the compensation committee reviewed our performance against the performance matrix of our 2012 Executive Officer Performance Bonus Plan and determined that we had met the objectives established for the year at 98%. In addition, the compensation committee, in consultation with the CEO (other than with respect to assessing the CEO's performance), determined that each of the individual performance objectives were met and they all achieved a score of 3. The bonuses paid for 2012 are provided in the table below and in the section entitled Summary Compensation Table for Years Ended December 31, 2012, 2011 and 2010.

Named Executive Officer	2011 Bonus	2012 Bonus
Brian Sharples	\$ 501,480	\$ 449,767
Lynn Atchison	\$ 179,900	\$ 175,077
Brent Bellm	\$ 189,392	\$ 245,625
Ross Buhrdorf	\$ 139,300	\$ 152,921
Carl Shepherd	\$ 172,175	\$ 175,077

Table of Contents*Equity Compensation*

We use equity awards to motivate and reward our named executive officers, to encourage long-term corporate performance based on the value of our common stock and to align the interests of our named executive officers with those of our stockholders. In 2012, the equity awards granted to our named executive officers consisted of a mix of options to purchase shares of our common stock and RSU awards covering shares of our common stock. We believe that stock options, when granted with exercise prices equal to the fair market value of our common stock on the date of grant, provide an appropriate long-term incentive for our named executive officers, since the stock options reward our officers only to the extent that our stock price grows and stockholders realize value following their grant date. We also believe that RSU awards help us to retain our named executive officers and reward them for long-term stock price appreciation while at the same time providing some value to the recipient even if the market price of our common stock declines. In determining the appropriate mix of RSU and option awards, the compensation committee considers the current share and equity holdings of each named executive officer and competitive data of the types of equity compensation provided to executive officers to companies in our peer group, with a goal of reaching a mix that would provide the right incentives while staying competitive in our market.

We do not apply a rigid formula to determine the size of the equity awards that are granted to our named executive officers. Instead, these awards are determined in the judgment of the compensation committee, taking into consideration, among other things, our performance and that of the named executive officer during the past year, the prospective role and responsibility of the named executive officer, competitive factors, equity compensation data for executive officers of our peer group, the amount of equity-based compensation, including the portion that is vested, held by the named executive officer and the cash compensation received by the named executive officer. Based upon these factors, the compensation committee sets the size of each equity award at the level it considers appropriate to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value.

In 2012, stock options and, with the exception of our CEO, RSU awards, were granted to the named executive officers to position them at approximately the 75th percentile of our compensation peer group. The compensation committee decided to grant our CEO's equity award entirely in the form of a stock option because he was vested in significantly more equity than the other named executive officers and, thus, it believed that stock options would serve as a better retention tool with respect to him. For the other named executive officers, a mix of approximately 70% stock options and 30% RSU awards were granted. The compensation committee determined that it was more appropriate for a significant percentage of the equity award to be in the form of stock options to provide a stronger incentive for the named executive officer to increase the market price of our common stock. The grant date fair market value for each named executive officer's equity grant made in 2012 is set forth below and in the sections below entitled "Summary Compensation Table for Years Ended December 31, 2012, 2011 and 2010" and "Grants of Plan-Based Awards."

Named Executive Officer	2012	2012
	Stock Option Grant	RSU Grant
Brian Sharples	\$ 1,491,056	\$
Lynn Atchison	\$ 735,487	\$ 335,979
Brent Bellm	\$ 1,043,739	\$ 476,806
Ross Buhrdorf	\$ 773,631	\$ 353,423
Carl Shepherd	\$ 683,784	\$ 312,380

Retirement and Other Benefits

Our named executive officers are eligible to participate in our tax-qualified Section 401(k) retirement savings plan on the same basis as our other employees who satisfy the plan's eligibility requirements, including requirements relating to age and length of service. Under this plan, participants may elect to make pre-tax

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contributions of up to 80% of their current compensation, not to exceed the applicable statutory income tax limitation, which was \$17,000 in 2012. In addition, we may make discretionary contributions to the plan in any year, up to certain limits.

Additional benefits received by our named executive officers include medical, dental and vision benefits, medical and dependent care flexible spending accounts, short-term and long-term disability insurance, accidental death and dismemberment insurance, and basic life insurance. These benefits are provided on the same basis as to all of our full-time employees.

Historically, we have not provided perquisites or other personal benefits to our named executive officers. Currently, we do not view perquisites or other personal benefits as a component of our executive compensation program. Our future practices with respect to perquisites or other personal benefits will be approved and subject to periodic review by the compensation committee.

Employment Arrangements

In connection with our initial public offering of our common stock, on May 27, 2011, we entered into employment agreements with each of our named executive officers. With the exception of his own agreement, each of these agreements was negotiated on our behalf by our CEO, with the oversight and approval of the compensation committee. Our CEO's employment agreement was negotiated directly with the compensation committee. We believe that these employment agreements were necessary to retain these individuals and induce them to lead us in achieving our goals as a publicly traded company.

For a summary of the material terms and conditions of these employment agreements, see the section entitled [Employment Agreements](#).

Post-Employment Compensation Arrangements

The employment agreements provide each of the named executive officers with certain protection in the event of his or her termination of employment under specified circumstances, including following a change of control of our Company. We believe that these protections serve our executive retention objectives by helping our named executive officers maintain continued focus and dedication to their responsibilities to maximize stockholder value, including in the event that there is a potential transaction that could involve a change in control of our Company. The terms of these agreements were determined after review by the compensation committee of our retention goals for each named executive officer and an analysis of competitive market data.

For a summary of the material terms and conditions of these severance and change in control arrangements, see the section entitled [Potential Payments upon Termination or Change in Control](#).

Other Compensation Policies

Stock Ownership Guidelines

Currently, we have not implemented a policy regarding minimum stock ownership requirements for our named executive officers. The compensation committee will consider whether to adopt such a policy in the future.

Compensation Recovery Policy

We have not implemented a policy regarding retroactive adjustments to any cash or equity-based incentive compensation paid to our named executive officers and other employees where the payments were predicated upon the achievement of financial results that were subsequently the subject of a financial restatement. The compensation committee intends to adopt such a policy when the SEC completes its rulemaking pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

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Tax and Accounting Considerations

Deductibility of Executive Compensation

Generally, Section 162(m) of the Internal Revenue Code disallows a tax deduction to any publicly-held corporation for any remuneration in excess of \$1.0 million paid in any taxable year to its chief named executive officer and each of its three next most highly-compensated named executive officers (other than its chief financial officer). Remuneration in excess of \$1.0 million may be deducted if, among other things, it qualifies as performance-based compensation within the meaning of the Internal Revenue Code. Additionally, under a Section 162(m) exception for private companies that subsequently become publicly held, any compensation paid pursuant to a compensation plan in existence before the effective date of the public offering of securities will not be subject to the \$1.0 million limitation until the earliest of: (i) the expiration of the compensation plan, (ii) a material modification of the compensation plan (as determined under Section 162(m)), (iii) the issuance of all the employer stock and other compensation allocated under the compensation plan, or (iv) the first meeting of stockholders at which directors are elected after the close of the third calendar year following the year in which the public offering of securities occurred.

Where reasonably practicable, the compensation committee may seek to qualify the variable compensation paid to our named executive officers for the performance-based compensation exemption from Section 162(m). As such, in approving the amount and form of compensation for our named executive officers in the future, the compensation committee will consider all elements of the cost to us of providing such compensation, including the potential impact of Section 162(m). The compensation committee may, in its judgment, authorize compensation payments that do not comply with the exemptions in Section 162(m) when it believes that such payments are appropriate to attract and retain executive talent.

Taxation of Parachute Payments and Deferred Compensation

Sections 280G and 4999 of the Internal Revenue Code provide that named executive officers and directors who hold significant equity interests and certain other service providers may be subject to an excise tax if they receive payments or benefits in connection with a change of control of our Company that exceeds certain prescribed limits, and that we (or a successor) may forfeit a deduction on the amounts subject to this additional tax.

Section 409A of the Internal Revenue Code imposes significant additional taxes in the event that an employee, including a named executive officer, director, or service provider receives nonqualified deferred compensation that does not satisfy the conditions of Section 409A.

We did not provide any named executive officer with a gross-up or other reimbursement payment for any tax liability that he or she might owe as a result of the application of Sections 280G, 4999 or 409A of the Internal Revenue Code during 2012 and we have not agreed and are not otherwise obligated to provide any named executive officer with such a gross-up or other reimbursement.

Accounting for Stock-Based Compensation

We follow the FASB ASC Topic 718 for our stock-based compensation awards. ASC 718 requires companies to calculate the grant date fair value of their stock-based awards using a variety of assumptions. This calculation is performed for accounting purposes and reported in the compensation tables that accompany this Compensation Discussion and Analysis, even though recipients may never realize any value from their awards. ASC 718 also requires companies to recognize the compensation cost of their stock-based awards in their income statements over the period that the recipient of the award is required to render service in exchange for the award.

Table of Contents**Report of the Compensation Committee**

During fiscal year 2012, the compensation committee consisted of three non-employee directors: Jeffrey D. Brody served for the full year, Todd Chaffee served until his resignation from the Board on August 29, 2012, at which time he was replaced by Christopher (Woody) Marshall and Susan Wojcicki served until her resignation from the Board on December 13, 2012, at which time she was replaced by Tina Sharkey. The Board has determined each of these directors to be independent under applicable NASDAQ rules. The compensation committee has duties and responsibilities as described in its charter adopted by the Board. A copy of the charter can be found on our website at <http://investors.homeaway.com>.

The compensation committee has reviewed and discussed with management the disclosures contained in the section of this Proxy Statement entitled Executive Compensation Compensation Discussion and Analysis. Based on this review and discussion, the compensation committee recommended to the Board that the section entitled Executive Compensation Compensation Discussion and Analysis be included in this Proxy Statement for the Annual Meeting of Stockholders.

SUBMITTED BY THE COMPENSATION COMMITTEE
OF
THE BOARD OF DIRECTORS

Jeffrey D. Brody, Chairperson
Woody Marshall
Tina Sharkey

Summary Compensation Table for Years Ended December 31, 2012, 2011 and 2010

The following table provides information regarding the compensation awarded to or earned during our fiscal years ended December 31, 2012, 2011 and 2010 by our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$) (2)	Stock Awards (\$) (3)	Option Awards (\$) (4)	Non-Equity Incentive Plan Compensation (\$) (5)	All Other Compensation (\$) (6)	Total (\$)
Brian H. Sharples, <i>President and Chief Executive Officer</i>	2012	487,500		1,491,056		449,767	2,451	2,430,774
	2011	420,833			10,769,000	501,480	4,047	11,695,360
	2010	328,146	220,000	1,761,351		193,533	1,040	2,504,070
Lynn Atchison, <i>Chief Financial Officer</i>	2012	316,275		735,487	335,979	175,077	566	1,563,384
	2011	281,350			1,076,900	179,900	1,112	1,539,262
	2010	214,200	60,000			105,494	1,040	380,734
Brent Bellm, <i>Chief Operating Officer</i>	2012	354,975		1,043,739	476,806	245,625	391	2,121,536
	2011	337,013			646,140	189,392	1,112	1,173,657
	2010	161,157 (1)		1,192,185	3,969,241	77,772	38,529	5,438,884
Ross A. Buhrdorf, <i>Chief Technical Officer</i>	2012	276,250		773,631	353,423	152,921	498	1,556,723
	2011	242,708			807,675	139,300	1,112	1,190,795
	2010	225,000				110,813	1,040	336,853
Carl G. Shepherd	2012	316,275		683,784	312,380	175,077	572	1,448,088
	2011	284,325			1,076,900	172,175	1,112	1,534,512

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<i>Chief Strategy and Development Officer</i>	2010	224,400	60,000	110,517	1,040	395,957
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- (1) Mr. Bellm was hired on June 21, 2010.
- (2) Consists of discretionary retention bonuses paid in 2010.
- (3) Amounts represent the aggregate grant date fair value of, for 2010, restricted stock grants and, for 2012, restricted stock unit grants, each during the respective year and each computed in accordance with FASB ASC

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- Topic 718. Assumptions used in the calculations of these amounts are described in Note 9 to our consolidated financial statements included in our Annual Report on Form 10-K.
- (4) Amounts represent the aggregate grant date fair value of stock options granted during the year computed in accordance with FASB ASC Topic 718. Assumptions used in calculating these are described in Note 9 to our consolidated financial statements included in our Annual Report on Form 10-K.
- (5) Includes amounts earned under the 2010 Executive Officer Performance Bonus Plan, the 2011 Executive Officer Performance Bonus Plan and the 2012 Executive Officer Performance Bonus Plan. Payments due under the 2010 Executive Officer Performance Bonus Plan were made in February 2011, payments due under the 2011 Executive Officer Performance Bonus Plan were made in March 2012 and payments due under the 2012 Executive Officer Performance Bonus Plan were made in March 2013.
- (6) Consists of premiums paid for short-term disability, long-term disability, life, and accidental death and dismemberment insurance. In addition, for Mr. Bellm, the amount reported for 2010 includes \$37,973 in relocation benefits.

Grants of Plan-Based Awards

The following table sets forth certain information concerning grants of plan-based awards to named executive officers in 2012.

Name	Grant Date (2)	Threshold	Target	Maximum	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)		
					All Other Option Awards: No. of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards (3)
Brian H. Sharples	3/27/2012	\$ 235,000	\$ 500,000	\$ 547,500	115,240	\$ 25.54	\$ 2,943,230
Lynn Atchison	3/27/2012	89,873	191,220	209,386	69,999	25.54	1,787,774
Brent Bellm	3/27/2012	126,900	270,000	295,650	99,337	25.54	2,537,067
Ross A. Buhrdorf	3/27/2012	80,370	171,000	187,245	73,630	25.54	1,880,510
Carl G. Shepherd	3/27/2012	89,873	191,220	209,386	65,079	25.54	1,662,118

- (1) Amounts represent amounts payable under the 2012 Executive Officer Performance Bonus Plan. The target column assumes the achievement of target goals approved by our Board. Actual amounts paid to our named executive officers are set forth in the section entitled Summary Compensation Table for Years Ended December 31, 2012, 2011 and 2010.
- (2) Grant Date is the date the stock option awards in the last three columns were awarded. There is no grant date under the 2012 Executive Officer Performance Bonus Plan.
- (3) Amounts represent the aggregate grant date fair value of awards or equity plan compensation computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are described in the section entitled Stockholders Equity and Stock-Based Compensation in Note 9 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K.

Table of Contents**Outstanding Equity Awards at 2012 Fiscal Year-End**

The following table sets forth outstanding equity awards held by the named executive officers as of December 31, 2012.

Name	Date of Grant	OPTION AWARDS				STOCK AWARDS	
		Number of Securities Underlying Unexercised Options (Exercisable) (#)	Number of Securities Underlying Unexercised Options (Unexercisable) (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Brian Sharples	1/30/2007 (1)	218,000		\$ 2.06	1/30/2017		
	1/29/2008 (2)	135,262		\$ 8.10	1/29/2018		
	2/10/2011 (1)	266,333	541,667	\$ 19.97	2/10/2021		
	3/27/2012 (11)	19,206	96,034	\$ 25.54	3/27/2022		
Lynn Atchison	1/30/2007 (1)	46,200		\$ 2.06	1/30/2017		
	1/29/2008 (4)	96,483		\$ 8.10	1/29/2018		
	11/13/2009 (6)	100,000		\$ 13.93	11/13/2019		
	2/10/2011 (1)	45,833	54,167	\$ 19.97	2/10/2021		
	3/27/2012 (11)(12)	9,473	47,371	\$ 25.54	3/27/2022	11,510	253,220
Brent Bellm	6/28/2010 (7)	312,500	312,500	\$ 13.49	6/28/2020	37,500	825,000
	2/10/2011 (1)	27,500	32,500	\$ 19.97	2/10/2021		
	3/27/2012 (11)(12)	13,444	67,224	\$ 25.54	3/27/2022	16,336	359,392
Ross Buhrdorf	7/22/2005 (3)	125,000		\$ 0.01	7/22/2015		
	11/13/2009 (6)	52,542		\$ 13.49	11/13/2019		
	2/10/2011 (1)	34,375	40,625	\$ 19.97	2/10/2021		
	3/27/2012 (11)(12)	9,965	49,827	\$ 25.54	3/27/2022	12,109	266,398
Carl Shepherd	11/13/2009 (6)	63,886		\$ 13.49	11/13/2019		
	2/10/2011 (1)	45,833	54,167	\$ 19.97	2/10/2021		
	3/27/2012 (11)(12)	9,909	42,939	\$ 25.54	3/27/2022	10,702	235,444

- (1) Vested as to 6.25% of the shares subject to option three months following the vesting commencement date and an additional 1/48th of the shares subject to the option each month thereafter.
- (2) Vested as to 5,397 shares each month beginning January 29, 2009 through December 29, 2009 and as to 8,125 shares each month beginning January 29, 2010 through December 29, 2010.
- (3) Vested as to 25% of the total number of shares underlying the option on the first anniversary of the vesting commencement date for the option and as to an additional 1/48th of the total number of shares underlying the option vest on the corresponding day of each month thereafter.
- (4) Vested as to 3,413 shares each month beginning January 29, 2009 through December 29, 2009 and as to 4,628 shares each month beginning January 29, 2010 through December 29, 2010.
- (5) All of the shares underlying the option vested on December 31, 2010.
- (6) All of the shares underlying the option vested on December 31, 2012.
- (7) Vested as to 20% of the total number of shares underlying the option on the first anniversary of the vesting commencement date for the option and as to an additional 1/60th of the total number of shares underlying the option vest on the corresponding day of each month thereafter.
- (8) Vested as to 4,253 shares each month beginning January 29, 2009 through December 29, 2009 and as to 7,292 shares each month beginning January 29, 2010 through December 29, 2010.
- (9) Vested 3,776 shares each month beginning January 29, 2009 through December 29, 2009 and as to 4,427 shares each month beginning January 29, 2010 through December 31, 2010.
- (10) Vested as to 25% of the shares subject to the award on the first anniversary of the vesting commencement date and an additional 1/48th of the shares subject to the award each month thereafter.
- (11) Six and one quarter percent (6.25%) of the shares subject to the option will vest on July 1, 2012, with the remainder vesting ratably over the next 36 months, subject to continued service through each vesting date.

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(12) Six and one quarter percent (6.25%) of the restricted stock units will vest each quarter over a period of four years beginning June 1, 2012, subject to continued service through each vesting date. Shares will be delivered on the vesting date.

Option Exercises and Stock Vested in 2012

The following table sets forth exercises and vesting of options held by our named executive officers during 2012.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired Upon Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Brian H. Sharples	291,000	2,848,495		
Lynn Atchison	54,703	1,315,077	1,645	36,307
Brent Bellm			27,333	647,114
Ross A. Buhrdorf	192,500	3,095,928	1,729	38,161
Carl G. Shepherd	105,552	1,246,029	1,529	33,747

Employment Agreements

On May 27, 2011, we entered into an amended and restated employment agreement with Brian H. Sharples. The amended and restated agreement entitles Mr. Sharples to an annual base salary of \$450,000 and provides that he is eligible to earn an annual bonus of up to 100% of his base salary pursuant to a bonus plan adopted by the compensation committee of our Board. Mr. Sharples' current annual base salary is set forth in the section entitled Summary Compensation Table for Years Ended December 31, 2012, 2011 and 2010, and his current target cash bonus opportunity is set forth in the section entitled Executive Compensation Executive Compensation Program Components. In addition, the amended and restated agreement provides that (i) in the event of a change of control (as defined in the amended and restated agreement), 50% of the unvested portion of all equity awards granted to him would become fully vested; (ii) in the event of a termination of Mr. Sharples' employment by us without cause or if he resigned for good reason (as such terms are defined in the amended and restated agreement), other than in connection with a change of control, then Mr. Sharples would receive (a) a lump sum cash payment equal to 12 months' base salary and (b) reimbursement of COBRA payments for up to 12 months; and (iii) in the event of a termination of Mr. Sharples' employment by us without cause or if he resigned for good reason within three months prior to, or 18 months following, a change of control, then Mr. Sharples would receive (a) a lump-sum cash payment equal to 24 months' base salary, (b) vesting of 100% of the unvested portion of all equity awards granted to him by us, and (c) reimbursement of COBRA payments for up to 18 months. Any severance benefits would be contingent on Mr. Sharples executing a full general release of claims in our favor. The amended and restated agreement provides for at-will employment and has a term of three years.

On May 27, 2011, we entered into an employment agreement with Lynn Atchison. The agreement entitles Ms. Atchison to an annual base salary of \$309,000 and provides that she is eligible to earn an annual bonus of up to 50% of her base salary pursuant to a bonus plan adopted by the compensation committee of our Board. Ms. Atchison's current annual base salary is set forth in the section entitled Summary Compensation Table for Years Ended December 31, 2012, 2011 and 2010, and her current target cash bonus opportunity is set forth in the section entitled Executive Compensation Executive Compensation Program Components. In addition, the agreement provides that (i) in the event of a termination of Ms. Atchison's employment by us without cause (as defined in the agreement), other than in connection with a change of control, then Ms. Atchison would receive (a) a lump-sum cash payment equal to six months' base salary and (b) reimbursement of COBRA payments for up to six months and (ii) in the event of a termination of Ms. Atchison's employment by us without cause or if she resigned for good reason within three months prior to, or 18 months following, a change of control, then Ms. Atchison would receive (a) a lump-sum cash payment equal to 12 months' base salary,

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(b) vesting of 100% of the unvested portion of all equity awards granted to her by us, and (c) reimbursement of COBRA payments for up to 12 months. Any severance benefits would be contingent on Ms. Atchison executing a full general release of claims in our favor. The agreement provides for at-will employment and has a term of three years.

On May 27, 2011, we entered into an employment agreement with Brent Bellm. The agreement entitles Mr. Bellm to an annual base salary of \$339,000 and provides that he is eligible to earn an annual bonus of up to 50% of his base salary pursuant to a bonus plan adopted by the compensation committee of our Board. Mr. Bellm's current annual base salary is set forth in the section entitled "Summary Compensation Table for Years Ended December 31, 2012, 2011 and 2010," and his current target cash bonus opportunity is set forth in the section entitled "Executive Compensation Executive Compensation Program Components." In addition, the agreement provides that (i) in the event of a termination of Mr. Bellm's employment by us without cause (as defined in the agreement), other than in connection with a change of control, at any time on or prior to June 21, 2013, then Mr. Bellm would receive (a) a lump-sum cash payment equal to 12 months' base salary, and (b) 12 months' accelerated vesting of all equity awards granted to him, and (c) reimbursement of COBRA payments for up to six months; (ii) in the event of a termination of Mr. Bellm's employment by us without cause, other than in connection with a change of control, at any time after June 21, 2013, then Mr. Bellm would receive (a) a lump-sum cash payment equal to six months' base salary, (b) six months' accelerated vesting of all equity awards granted to him, and (c) reimbursement of COBRA payments for up to six months; and (iii) in the event of a termination of Mr. Bellm's employment by us without cause or if he resigned for good reason within three months prior to, or 18 months following, a change of control, then Mr. Bellm would receive (a) a lump-sum cash payment equal to 12 months' base salary, (b) vesting of 100% of the unvested portion of all equity awards granted to him by us, and (c) reimbursement of COBRA payments for up to 12 months. Any severance benefits would be contingent on Mr. Bellm executing a full general release of claims in our favor. The agreement provides for at-will employment and has a term of three years.

On May 27, 2011, we entered into an employment agreement with Mr. Hale. The agreement entitles Mr. Hale to an annual base salary of \$309,000 and provides that he is eligible to earn an annual bonus of up to 50% of his base salary pursuant to a bonus plan adopted by the compensation committee of our board of directors. Mr. Hale's current annual base salary is \$326,668 and his current target cash bonus opportunity is up to 60% of his base salary. In addition, the agreement provides that (i) in the event of a termination of Mr. Hale's employment by us without cause (as defined in the agreement), other than in connection with a change of control, at any time on or prior to June 18, 2011, then Mr. Hale would receive (a) a lump-sum cash payment equal to 12 months' base salary, (b) 12 months' accelerated vesting of all equity awards granted to him, and (c) reimbursement of COBRA payments for up to six months; (ii) in the event of a termination of Mr. Hale's employment by us without cause, other than in connection with a change of control, at any time after June 18, 2011 but on or before June 18, 2012, then Mr. Hale would receive (a) a lump-sum cash payment equal to six months' base salary, (b) six months' accelerated vesting of all equity awards granted to him, and (c) reimbursement of COBRA payments for up to six months; (iii) in the event of a termination of Mr. Hale's employment by us without cause, other than in connection with a change of control, at any time after June 18, 2012, then Mr. Hale would receive (a) a lump-sum cash payment equal to six months' base salary and (b) reimbursement of COBRA payments for up to six months; and (iv) in the event of a termination of Mr. Hale's employment by us without cause or if he resigned for good reason within three months prior to, or 18 months following, a change of control, then Mr. Hale would receive (a) a lump-sum cash payment equal to 12 months' base salary, (b) vesting of 100% of the unvested portion of all equity awards granted to him by us, and (c) reimbursement of COBRA payments for up to 12 months. Any severance benefits would be contingent on Mr. Hale executing a full general release of claims in our favor. The agreement provides for at-will employment and has a term of three years.

On May 27, 2011, we entered into an employment agreement with Mr. Shepherd. The agreement entitles Mr. Shepherd to an annual base salary of \$309,000 and provides that he is entitled to an annual bonus of up to 50% of his base salary pursuant to a bonus plan adopted by the compensation committee of our Board.

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Mr. Shepherd's current annual base salary is set forth in the section entitled "Summary Compensation Table for Years Ended December 31, 2012, 2011 and 2010," and his current target cash bonus opportunity is set forth in the section entitled "Executive Compensation - Executive Compensation Program Components." The agreement provides that (i) in the event of a termination of Mr. Shepherd's employment by us without cause (as defined in the agreement), other than in connection with a change of control, then Mr. Shepherd would receive (a) a lump-sum cash payment equal to six months' base salary and (b) reimbursement of COBRA payments for up to six months and (ii) in the event of a termination of Mr. Shepherd's employment by us without cause or if he resigned for good reason within three months prior to, or 18 months following, a change of control, then Mr. Shepherd would receive (a) a lump-sum cash payment equal to 12 months' base salary, (b) vesting of 100% of the unvested portion of all equity awards granted to him by us, and (c) reimbursement of COBRA payments for up to 12 months. Any severance benefits would be contingent on Mr. Shepherd executing a full general release of claims in our favor. The agreement provides for at-will employment and has a term of three years.

On May 27, 2011, we entered into an employment agreement with Ross A. Buhrdorf. The agreement entitles Mr. Buhrdorf to an annual base salary of \$250,000 and provides that he is eligible to earn an annual bonus of up to 50% of his base salary pursuant to a bonus plan adopted by the compensation committee of our Board. Mr. Buhrdorf's current annual base salary is set forth in the section entitled "Summary Compensation Table for Years Ended December 31, 2012, 2011 and 2010," and his current target cash bonus opportunity is set forth in the section entitled "Executive Compensation - Executive Compensation Program Components." The agreement provides that (i) in the event of a termination of Mr. Buhrdorf's employment by us without cause (as defined in the agreement), other than in connection with a change of control, then Mr. Buhrdorf would receive (a) a lump-sum cash payment equal to six months' base salary and (b) reimbursement of COBRA payments for up to six months and (ii) in the event of a termination of Mr. Buhrdorf's employment by us without cause or if he resigned for good reason within three months prior to, or 18 months following, a change of control, then Mr. Buhrdorf would receive (a) a lump-sum cash payment equal to 12 months' base salary, (b) vesting of 100% of the unvested portion of all equity awards granted to him by us, and (c) reimbursement of COBRA payments for up to 12 months. Any severance benefits would be contingent on Mr. Buhrdorf executing a full general release of claims in our favor. The agreement provides for at-will employment and has a term of three years.

Table of Contents**Potential Payments upon Termination or Change in Control**

As of December 31, 2012, we were parties to agreements with each of our named executive officers that provide for certain severance or vesting benefits or both if they are involuntarily terminated, in connection with a change of control, or if in connection with or during the 12-month period following a change of control they are involuntarily terminated under certain circumstances. The key terms of our arrangements upon an involuntary termination or a change of control for these named executive officers are as follows:

Name	Without a Change of Control Event		Following a Change of Control Event	
	Cash and Benefit Payments	Equity Acceleration	Cash and Benefit Payments	Equity Acceleration
Brian H. Sharples	One-time payment equal to 12 months base salary	None	One-time payment equal to 24 months base salary.	100% of the unvested portion of all equity awards granted to him would become fully vested.
	Reimbursement of COBRA payments for up to 12 months.		Reimbursement of COBRA payments for up to 18 months.	
Lynn Atchison	One-time payment equal to 6 months base salary	None	One-time payment equal to 12 months base salary.	100% of the unvested portion of all equity awards granted to her would become fully vested.
	Reimbursement of COBRA payments for up to six months		Reimbursement of COBRA payments for up to 12 months.	
Brent Bellm	Continuing severance pay at a rate equal to 100.0% of base salary for 12 months if terminated on or prior to June 21, 2013, or six months if terminated thereafter.	Unvested equity grants receive vesting credit for 12 months following termination if terminated on or prior to June 21, 2013, or six months credit if terminated thereafter.	One-time payment equal to 12 months base salary. Reimbursement of COBRA payments for up to 12 months.	100% of the unvested portion of all equity awards granted to him would become fully vested.
	Reimbursement of COBRA payments for up to six months.			
Ross A. Buhrdorf	One-time payment equal to 6 months base salary	None	One-time payment equal to 12 months base salary.	100% of the unvested portion of all equity awards granted to him would become fully vested.
	Reimbursement of COBRA payments for up to six months		Reimbursement of COBRA payments for up to 12 months.	
Carl G. Shepherd	One-time payment equal to 6 months base salary	None	One-time payment equal to 12 months base salary.	100% of the unvested portion of all equity awards granted to him would become fully

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Reimbursement of COBRA
payments for up to six
months

Reimbursement of COBRA vested.
payments for up to 12
months.

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The table below estimates payments that would have been due to each named executive officer in the event his or her employment had been involuntarily terminated not in connection with a change of control, assuming the termination occurred on December 31, 2012. The accelerated equity market value was \$22.00, the closing price of our common stock on the NASDAQ on December 31, 2012.

Name	Cash Payments		Equity Acceleration	
	Salary	Benefits	Shares	Market Value of Accelerated Equity (net of exercise price, if any)
Brian H. Sharples	\$ 500,000	\$ 21,489		
Lynn Atchison	\$ 159,350	\$ 6,115		
Brent Bellm	\$ 360,000	\$ 9,211	101,934	\$ 4,269,596
Ross A. Buhrdorf	\$ 142,500	\$ 9,211		
Carl G. Shepherd	\$ 159,250	\$ 9,211		

The table below estimates payments that would have been due to each named executive officer in the event his or her employment had been involuntarily terminated immediately following a change of control, assuming the termination occurred on December 31, 2012. The accelerated equity market value was \$22.00, the closing price of our common stock on the NASDAQ on December 31, 2012.

Name	Cash Payments		Equity Acceleration	
	Salary	Benefits	Shares	Market Value of Accelerated Equity (net of exercise price, if any)
Brian H. Sharples	\$ 1,000,000	\$ 32,233	1,161,262	\$ 7,867,302
Lynn Atchison	\$ 318,700	\$ 12,231	354,193	\$ 3,569,562
Brent Bellm	\$ 360,000	\$ 18,421	738,836	\$ 6,349,942
Ross A. Buhrdorf	\$ 285,000	\$ 18,421	264,651	\$ 3,614,530
Carl G. Shepherd	\$ 318,700	\$ 18,421	174,588	\$ 982,114

Limitation on Liability and Indemnification Matters

Our amended and restated certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

any breach of the director's duty of loyalty to us or our stockholders;

any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or

any transaction from which the director derived an improper personal benefit.

Our amended and restated bylaws provide that we are required to indemnify our directors and officers to the fullest extent permitted by Delaware law. Our amended and restated bylaws also provide that we are obligated to advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity, regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of Delaware law. We have entered and expect to continue to enter into agreements to indemnify our directors,

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executive officers and other employees as determined by our Board. With specified exceptions, these agreements provide for indemnification for related expenses including, among other

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things, attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as members of our Board and officers and potentially in other roles with our Company. We also maintain directors' and officers' liability insurance.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information, as of December 31, 2012, concerning shares of our common stock authorized for issuance under all of our equity compensation plans.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (1) (c)
Equity compensation plans approved by stockholders	11,211,020	\$ 17.37	11,999,814
Equity compensation plans not approved by stockholders			
Total equity compensation plans	11,211,020	\$ 17.37	11,999,814

- (1) Pursuant to the terms of the 2011 Equity Incentive Plan, the number of shares available for issuance under the 2011 Equity Incentive Plan will be increased on the first day of each fiscal year in an amount equal to the lesser of (i) four percent (4%) of the outstanding shares of our Common Stock on the last day of the immediately preceding fiscal year or (ii) such number of shares determined by the Board.

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REPORT OF THE AUDIT COMMITTEE

The audit committee of our Board is responsible for, among other things, reviewing with PricewaterhouseCoopers LLP, our independent registered public accounting firm, the scope and results of their audit engagement. In connection with the 2012 audit, the audit committee has:

reviewed and discussed with management our audited financial statements, included in our Annual Report on Form 10-K for the year ended December 31, 2012;

discussed with PricewaterhouseCoopers LLP the matters required by Statement of Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU § 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

received from and discussed with PricewaterhouseCoopers LLP the communications from PricewaterhouseCoopers LLP required by the Public Company Accounting Oversight Board regarding its independence.

Based on the review and discussions described in the preceding bullet points, the audit committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2012 for filing with the Securities and Exchange Commission.

The audit committee has adopted a charter and a process for pre-approving services to be provided by PricewaterhouseCoopers LLP.

The members of the audit committee have been determined to be independent in accordance with the requirements of The NASDAQ Global Select Market listing standards and the requirements of Section 10A(m)(3) of the Exchange Act.

SUBMITTED BY THE AUDIT COMMITTEE OF
THE BOARD OF DIRECTORS
Charles (Lanny) C. Baker (Chair)
Simon Breakwell
Robert Solomon

Table of Contents**PROPOSAL TWO: RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED****PUBLIC ACCOUNTING FIRM**

The audit committee has appointed PricewaterhouseCoopers LLP (PwC) as our independent registered public accounting firm and auditors of our consolidated financial statements for the fiscal year ending December 31, 2013.

At the Annual Meeting, the stockholders are being asked to ratify the appointment of PwC as our independent registered public accounting firm for 2013. In the event of a negative vote on such ratification, the audit committee will reconsider its selection. Even if this appointment is ratified, the audit committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the audit committee determines that such a change would be in the best interest of HomeAway and our stockholders. Representatives of PwC are expected to be present at the Annual Meeting to make a statement if such representatives desire to do so and to respond to questions.

Fees Paid to PricewaterhouseCoopers LLP

The following table sets forth the fees accrued or paid to our independent registered public accounting firm for the years ended December 31, 2012 and 2011.

Audit and Non-Audit Fees

	PricewaterhouseCoopers LLP	
	2012	2011
Audit Fees (1)	\$ 1,563,000	\$ 2,345,106
Audit-Related Fees (2)	42,000	
Tax Fees (3)	112,000	
All Other Fees (4)	\$ 2,000	1,919
Total	\$ 1,719,000	\$ 2,347,025

- (1) Audit fees relate to professional services rendered in connection with the audit of our annual financial statements, quarterly review of financial statements included in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q.
- (2) Audit-related fees are comprised of fees for professional services that are reasonably related to the performance of the worldwide audit or review of our financial statements.
- (3) Tax fees relate to professional services rendered in connection with tax audits, international tax compliance, and international tax consulting and planning services.
- (4) All other fees consist of an Internet subscription for accounting research.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services Performed by the Independent Registered Public Accounting Firm

We maintain an auditor independence policy that bans our auditors from performing non-financial consulting services, such as information technology consulting and internal audit services. This policy mandates that the audit committee approve the audit and non-audit services and related budget in advance, and that the audit committee be provided with quarterly reporting on actual spending. This policy also mandates that we may not enter into auditor engagements for non-audit services without the express approval of the audit committee. In accordance with this policy, the audit committee pre-approved all services to be performed by our independent registered public accounting firm.

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Vote Required

You may vote FOR, AGAINST or ABSTAIN on this proposal. Approval of Proposal Two requires a FOR vote from a majority of the shares present or represented by proxy and voting at the Annual Meeting.

Recommendation of the Board of Directors

The Board recommends that you vote FOR ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013.

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OTHER MATTERS

Meeting Admission. You are entitled to attend the Annual Meeting only if you were a HomeAway stockholder at the close of business on April 12, 2013 or hold a valid proxy for the Annual Meeting. If attending the physical meeting, you should be prepared to present photo identification for admittance. In addition, if you are a stockholder of record, meaning that you hold shares directly with AST (registered holders), the inspector of election will have your name on a list, and you will be able to gain entry with a form of government-issued photo identification, such as a driver s license, state-issued ID card or passport. If you are not a stockholder of record but hold shares through a broker, bank, or nominee (street name or beneficial holders), in order to gain entry you must provide proof of beneficial ownership as of the record date, such as an account statement or similar evidence of ownership, along with a form of government-issued photo identification. If you do not provide photo identification and comply with the other procedures outlined above for attending the Annual Meeting in person, you will not be admitted to attend the Annual Meeting location in person.

Proxy Solicitation. HomeAway is paying the costs of the solicitation of proxies. We must also pay brokerage firms, banks, broker-dealers and other similar organizations representing beneficial owners of shares held in street name certain fees associated with forwarding the Notice to beneficial owners, forwarding printed proxy materials by mail to beneficial owners who specifically request them, and obtaining beneficial owners voting instructions. We currently estimate such costs will be approximately \$18,000.

In addition to soliciting proxies by mail, certain of our directors, officers and regular employees, without additional compensation, may solicit proxies personally or by telephone, facsimile or email on our behalf.

Inspector of Election. AST has been engaged as our independent inspector of election to tabulate stockholder votes for the 2013 Annual Meeting.

Stockholder List. HomeAway s list of stockholders as of April 12, 2013 will be available for inspection for 10 days prior to the 2013 Annual Meeting. If you want to inspect the stockholder list, please call our Investor Relations department at (512) 505-1700 to schedule an appointment.

2014 Stockholder Proposals or Nominations. Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended, some stockholder proposals may be eligible for inclusion in our 2014 proxy statement. These stockholder proposals must be submitted, along with proof of ownership of our stock in accordance with Rule 14a-8(b)(2), to our principal executive offices in care of our Corporate Secretary by one of the means discussed below in the section entitled Communicating with Us. Failure to deliver a proposal in accordance with this procedure may result in it not being deemed timely received. We must receive all submissions no later than the close of business (5:00 p.m. Central Standard Time) on December 27, 2013.

We strongly encourage any stockholder interested in submitting a proposal to contact our Corporate Secretary in advance of this deadline to discuss the proposal, and stockholders may want to consult knowledgeable counsel with regard to the detailed requirements of applicable securities laws. Submitting a stockholder proposal does not guarantee that we will include it in our proxy statement. Our nominating and governance committee reviews all stockholder proposals and makes recommendations to the Board for action on such proposals. For information on recommending individuals for consideration as nominees, see the section of this Proxy Statement entitled Corporate Governance Director Nomination Procedures.

In addition, under our bylaws, any stockholder intending to nominate a candidate for election to the Board or to propose any business at our 2014 annual meeting, precatory (non-binding) proposals presented under Rule 14a-8, must give notice to our Corporate Secretary between February 10, 2014 and March 12, 2014, unless the notice also is made pursuant to Rule 14a-9. The notice must include information specified in our bylaws, including information concerning the nominee or proposal, as the case may be, and information about the stockholder s ownership of and agreements related to our stock. If the 2014 annual meeting is held more than

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30 days prior to or 60 days after the anniversary of the 2013 Annual Meeting, the stockholder must submit notice of any such nomination and of any such proposal that is not made pursuant to Rule 14a-8 by the later of the 90th day prior to the 2013 annual meeting or the tenth day following the day on which public announcement of the meeting is first made. We will not entertain any proposals or nominations at the annual meeting that do not meet the requirements set forth in our bylaws. If the stockholder does not also comply with the requirements of Rule 14a-4(c)(2) under the Securities Exchange Act of 1934, as amended, we may exercise discretionary voting authority under proxies that we solicit to vote in accordance with our best judgment on any such stockholder proposal or nomination. The bylaws are filed as an exhibit to our Registration Statement filed with the SEC on March 11, 2011. To make a submission or to request a copy of our bylaws, stockholders should contact our General Counsel. We strongly encourage stockholders to seek advice from knowledgeable counsel before submitting a proposal or a nomination.

Financial Statements. Our financial statements for the year ended December 31, 2012 are included in our 2012 Annual Report to Stockholders, which we are providing to our stockholders at the same time as this Proxy Statement. Our Annual Report and this Proxy Statement are also posted on the Internet at <https://www.proxydocs.com/AWAY>. **If you have not received or do not have access to the Annual Report, which includes our Form 10-K Annual Report, call our Investor Relations department at (512) 505-1700, and we will send a copy to you without charge; or send a written request to HomeAway, Inc., Attn: Investor Relations, 1011 W. Fifth Street, Suite 300, Austin, Texas 78703.**

Communicating with Us. Visit our main Internet site at www.homeaway.com for information on our products and services, marketing programs, worldwide locations, customer support and job listings. Our Investor Relations site at <http://investors.homeaway.com> contains stock information, earnings and conference call replays, our annual report, corporate governance and historical financial information and links to our SEC filings. We do not incorporate the information contained on, or accessible through, our corporate website into this Proxy Statement.

If you would like to contact us, call our Investor Relations department at (512) 505-1700, or send correspondence to HomeAway, Inc., 1011 W. Fifth Street, Suite 300, Austin, Texas 78703. If you would like to communicate with our Board, see the procedures described in the section of this Proxy Statement entitled Corporate Governance Communications with the Board of Directors.

You can contact our General Counsel by mail to Melissa Frugé, HomeAway, Inc., 1011 W. Fifth Street, Suite 300, Austin, Texas 78703 to communicate with the Board, suggest a director candidate, make a stockholder proposal, provide notice of an intention to nominate candidates or introduce business at the Annual Meeting, or revoke a prior proxy instruction.

We know of no other matters to be submitted to the stockholders at the Annual Meeting. If any other matters properly come before the stockholders at the Annual Meeting, it is the intention of the persons named on the proxy to vote the shares represented thereby in accordance with their best judgment.

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STOCKHOLDERS SHARING THE SAME LAST NAME AND ADDRESS

To reduce the expense of delivering duplicate proxy materials to stockholders who may have more than one account holding HomeAway stock but who share the same address, we have adopted a procedure approved by the SEC called householding. Under this procedure, certain stockholders of record who have the same address and last name, and who do not participate in electronic delivery of proxy materials, will receive only one copy of our Notice of Internet Availability of Proxy Materials and, as applicable, any additional proxy materials that are delivered until such time as one or more of these stockholders notifies us that they want to receive separate copies. This procedure reduces duplicate mailings and saves printing costs and postage fees, as well as natural resources. Stockholders who participate in householding will continue to have access to and utilize separate proxy voting instructions.

If you receive a single set of proxy materials as a result of householding and you would like to have separate copies of our Notice of Internet Availability of Proxy Materials, Annual Report, or Proxy Statement mailed to you, please submit a request to our General Counsel at HomeAway, Inc., 1011 W. Fifth Street, Suite 300, Austin, Texas 78703 or call our Investor Relations Department at (512) 505-1700, and we will promptly send you what you have requested. However, please note that if you want to receive a paper proxy or voting instruction form or other proxy materials for purposes of this year's Annual Meeting, follow the instructions included in the Notice of Internet Availability that was sent to you. You can also contact our Investor Relations department at the phone number above if you received multiple copies of the Annual Meeting materials and would prefer to receive a single copy in the future, or if you would like to opt out of householding for future mailings.

By Order of the Board of Directors

Brian H. Sharples
President, Chief Executive Officer and Chairman

Austin, Texas

April 26, 2013

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