STMICROELECTRONICS NV
Form 6-K
November 06, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 or 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated November 6, 2003

(Commission File No. 1-13546)

This report on Form 6-K shall be incorporated by reference in

our Registration Statement on Form S-8, as amended (File No. 333-109572)

to the extent not superseded by documents or reports subsequently filed or submitted by us

under the Securities Act of 1933 or the Securities Exchange Act of 1934, in each case as amended

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STMicroelectronics N.V.

(Name of Registrant)

39, Chemin du Champ-des-Filles

1228 Plan-les-Ouates, Geneva, Switzerland

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F. x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ¨ No x

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-____

Enclosure: STMicroelectronics N.V. s Third Quarter 2003:

Operating and Financial Review and Prospects

Unaudited Interim Consolidated Statements of Income, Balance Sheets, and Statements of Cash Flow and related Notes

Certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Balance Sheets and Statements of Cash Flow and Notes thereto included elsewhere in this Form 6-K. The following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. Our actual results may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in addition to those set forth below, see Cautionary Statement Regarding Forward-Looking Statements and Item 3. Key Information Risk Factors , included in our annual report on Form 20-F for the year ended December 31, 2002 as filed with the U.S. Securities and Exchange Commission on March 14, 2003 (the Form 20-F), and updated in our SEC filings from time to time, most recently in our Report on Form 6-K as submitted to the SEC on August 1, 2003. We assume no obligation to update the forward-looking statements or such risk factors.

Critical Accounting Policies Using Significant Estimates

The preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of net revenue and expenses during the reporting period. We regularly evaluate our estimates and assumptions related to sales returns and allowances, allowances for doubtful accounts, inventory reserve, warranty reserves, goodwill and purchased intangible asset valuations, investments, restructuring costs, impairment of tangible and intangible assets, deferred income tax asset valuation allowances, litigation and other contingencies. We base our estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ materially and adversely from our estimates. To the extent there are material differences between the actual results and these estimates, our future results of operations could be affected.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our Consolidated Financial Statements.

Revenue recognition. Our policy is to recognize revenues from sales of products to our customers when the rights and risks of ownership of the goods are passed to our customers, which usually occurs at the time of shipment. A portion of our sales is made to distributors who participate in certain programs common in the semiconductor industry whereby the distributors are allowed to return merchandise or receive potential price reductions on existing stock on hand under certain circumstances. Provisions are made for estimated product returns and price protection, which may occur under the contractual terms agreed with these customers. The provisions are based on the latest historical data and expected evolution of market prices. If market conditions differ from our assumptions, this could have an impact on future periods; in particular, if market conditions were to worsen, net revenues could be reduced due to higher product returns and price reductions at the time these adjustments occur.

Our customers return our products from time to time for technical reasons. In some cases, these returned products are reworked and shipped back to customers. We analyze the status of product returns and record provisions accordingly. We determine the amount of reported revenues based on certain judgments or estimates and this amount of reported revenue may vary if we elect to make different judgments or estimates.

We maintain an allowance for doubtful accounts for potential estimated losses resulting from our customers inability to make required payments. We base our estimates on historical collection trends and we record a provision of 1.5% of total receivables. In addition, we are required to evaluate our customers credit ratings from time to time and take an additional provision for any specific account that we estimate as doubtful. Although we have determined that our most significant customers are creditworthy, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

Goodwill and purchased intangible assets. The purchase method of accounting for acquisitions requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development, which is expensed immediately. Goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests. The amounts and useful lives assigned to other intangible assets impact future amortization. If the assumptions and estimates used to allocate the purchase price are not correct or if business conditions change, purchase price adjustments or future asset impairment charges could be required.

Impairment of goodwill. Since January 1, 2002, goodwill acquired in business combinations has no longer been amortized and is subject to an impairment test to be performed on an annual basis or more frequently if indicators of impairment exist, in order to assess the recoverability of its carrying value. Goodwill subject to potential impairment is tested at a level of reporting referred to as a reporting unit. We define our reporting units at an individual business level, which is one level below the four semiconductor product groups described in Note 28 of the Consolidated Financial Statements included in our Form 20-F. Potential impairment exists when the fair value of each reporting unit for which goodwill is allocated is lower than the total carrying amount of relevant net assets allocated to such reporting unit. In determining the fair value of a reporting unit, we usually estimate the expected discounted future cash flows associated with the reporting unit and allocate the fair value of a reporting unit to all of the assets and liabilities of that unit, including goodwill. If the carrying amount of reporting unit goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess. Significant management judgments and estimates are required and used in the forecasts of future operating results that are used in the discounted cash flow method of valuation, including: the applicable industry s sales volume forecast and selling price evolution, the reporting unit s market penetration, the market acceptance of certain new technologies and costs evaluation. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market evolution and our sales expectations and are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect and future adverse changes in market conditions or operating results of acquired businesses not in line with our estimates may require impairment of certain goodwill.

Intangible assets subject to amortization. Intangible assets subject to amortization include the cost of technologies and licenses purchased from third parties, internally developed software which is capitalized and purchased software. These are amortized over a period ranging from three to seven years. The carrying value of intangible assets subject to amortization is evaluated whenever changes in circumstances indicate that the carrying amount may not be recoverable. In assessing recoverability, we estimate the expected discounted future cash flows associated with the intangible assets and compare this to their carrying value. An impairment loss is recognized for the excess of the carrying amount over the fair value. Significant management judgments and estimates are required and used in the forecasts of future operating results that are used in the discounted cash flow method of valuation, including: the applicable industry s sales volume forecast and selling price evolution, our market penetration, the market acceptance of certain new technologies and costs evaluation. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market evolution and our sales expectations and are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect and therefore future adverse change in market conditions or operating results of businesses acquired not in line with our estimates may require impairment of certain intangible assets.

Property, plant and equipment. Our business requires substantial investments in technologically advanced manufacturing facilities, which can quickly become significantly underutilized or obsolete as a result of rapid changes in demand and ongoing technological evolution.

We estimate the useful life of our manufacturing equipment, which is the largest component of our long-lived assets, to be six years. This estimate is based on our experience with using equipment over time. Depreciation expense is a major element of our manufacturing cost structure. We begin to depreciate new equipment when it is put into use.

We assess the carrying value of our property, plant and equipment whenever changes in circumstances indicate their carrying amount may not be recoverable. In assessing recoverability, we estimate the expected future cash flows associated with the tangible asset or group of assets and compare this to their carrying value. Significant estimates used in determining the undiscounted future cash flows include the industry evolution, the utilization of our fabrication facilities and the ability to upgrade such facilities, changes in selling price and the adoption of new technologies. Potential impairment exists when the carrying value of a tangible asset exceeds the future cash flows expected to be generated by the use of the asset and its eventual disposition. In such case, an impairment charge is recognized for the excess of the carrying value over the fair value. We mainly use the discounted expected cash flow technique to estimate fair value. Our evaluations are based on financial plans updated with the latest projections of the semiconductor market and of our sales expectations, from which we derive the future production needs and loading of our manufacturing facilities, and are consistent with the plans and estimates that we use to manage our business. These plans are highly variable due to the high volatility of the semiconductor business and therefore subject to continuous modifications. If the future evolution differs from the basis of our plans, both in terms of market evolution and production allocation to our manufacturing plants, this could require a further review of the carrying amount of our tangible assets resulting in a potential impairment loss. Factors we consider important which could trigger an impairment review include: significant negative industry trends, significant underutilization of the assets, and significant changes in how we use the assets in our plants.

Inventories. Inventories are stated at the lower of cost or market value. Cost is computed by adjusting standard cost to approximate actual manufacturing costs on a quarterly basis; the cost is therefore dependent on our manufacturing performance. In the case of underutilization of our manufacturing facilities, the costs associated with the excess capacity are not included in the valuation of inventories but charged directly to cost of sales.

Provisions for obsolescence are estimated for uncommitted inventories based on order backlog and the previous quarter s sales and production plans. To the extent that future negative market conditions generate order backlog cancellations and declining sales, and if actual conditions are less favorable than the projected income assumptions, this would require additional inventory write-down charges, negatively impacting cost of sales and gross margin.

Restructuring charges. We have undertaken, and we may continue to undertake, significant restructuring initiatives, which have required us to develop formalized plans for the exiting or disposing of certain activities. We recognize the fair value of a liability for costs associated with an exit or disposal activity when a probable liability exists and it can be reasonably estimated. We record estimated charges for on-going benefit arrangements such as severance and outplacement costs, and other restructuring costs meeting the criteria for a liability as described above. Given the significance of, and the timing of the execution of such activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. As we continue to evaluate the business, there may be additional charges as well as changes in estimates of amounts previously recorded.

Patent and other intellectual property litigation or claims. We have from time to time received, and may in the future receive, communications alleging possible infringements of patents and similar intellectual property rights of others. We constantly monitor, with the support of our outside attorneys when deemed necessary or advisable, the chances of such intellectual property claims being successfully asserted. We will record a provision when we estimate that the claim could successfully be asserted in a court of law, when the loss is considered probable and in the absence of a valid offset or counterclaim. In the event of litigation which is adversely determined with respect to our interests, or in the event we need to change our evaluation of a potential third-party intellectual property claim based on new evidence or communications, this could have a material adverse effect on our results of operations or financial condition at the time it were to materialize.

Other claims. We are subject to the possibility of various loss contingencies arising in the ordinary course of business. These include, but are not limited to: warranty costs on our products not covered by insurance, breach of contract claims, tax claims and claims for environmental damages. When determining loss contingencies, we consider the likelihood of a loss of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly reevaluate any losses and claims and determine whether they need to be readjusted based on the current information available to us. We will record a provision when we estimate that the claim could successfully be asserted. In the event of litigation that is adversely determined with respect to our interests, or in the event we need to change our evaluation of a potential third-party claim based on new evidence or communications, this could have a material adverse effect on our results of operations or financial condition at the time it were to materialize.

Business Outlook

Year-over-year estimates of semiconductor industry data for the first nine months of 2003 indicate improved revenues from levels recorded for the first nine months of 2002, driven by a more favorable economic environment and, in the most recent quarter, by better pricing trends in certain product families.

The total available market is defined as the TAM , while the serviceable available market, the SAM , is defined as the market for products produced by us (which consists of the TAM and excludes PC motherboard major devices such as microprocessors (MPU), dynamic random access memories (DRAMs), and optoelectronics devices).

Based upon most recently published industry data, the semiconductor industry experienced year-over-year revenue increase of approximately 14.7% for the TAM in the first nine months of 2003 and of approximately 16.0% for the SAM during the same period. In the third quarter of 2003, the TAM increased approximately 17.5% year-over-year and approximately 13.7% sequentially, mainly driven by strong revenue increases in PC motherboard devices such as MPU and DRAM product families (in which we do not participate) which benefited from a favorable back-to-school season for sales of personal computers. The estimates for the SAM indicate an increase of approximately 13.0% in the third quarter of 2003 compared to the same period of 2002 and an increase of approximately 8.8% sequentially.

Based upon most recently published industry data, our year-over-year net revenue performance for the first nine months of 2003 was lower than the SAM. Our net revenues for the first nine months of 2003 were $5,124 million, 13.1% above the $4,532 million reported for the first nine months of 2002. Our net revenues for the 2003 third quarter were $1,803 million, a 6.0% sequential increase over the second quarter of 2003 revenues of $1,702 million and 9.6% above 2002 third quarter revenues of $1,645 million. We achieved solid sequential and year-over-year revenue increase both in the first nine months and in the third quarter of 2003; however, these results have been primarily driven by unit demand rather than the pricing leverage needed to raise profitability levels, due to the difficult industry conditions in terms of capacity utilization, which persisted during the period.

Our third quarter net revenues were driven by double-digit sequential increases in digital consumer applications and Flash memory products. In the third quarter of 2003, higher revenue levels translated into a sequential improvement in gross profit; however, gross margin decreased from the prior quarter to 35.1%, reflecting the difficult pricing environment and the lower utilization rate, which characterized the first half of the third quarter. Increased orders for shipment in the fourth quarter kept inventory levels constant with those of the prior quarter, while inventory turns (calculated based on annualized rolling quarterly cost of sales divided by inventory value) increased. The increase in gross profit did not translate into sequential increases in operating income and net income because of $193 million in special charges before tax booked in the third quarter of 2003 ($130 million after tax) related to impairment, restructuring charges and other related closure costs in line with the previously announced restructuring plan. Approximately $151 million represented non-cash charges. As a result of these charges, we posted an operating loss of $64 million and net loss of $50 million, or $0.06 per share for the third quarter of 2003. Developed to safeguard and increase cost competitiveness and enhance capacity, the restructuring plan calls for the migration of approximately 60% of our European and U.S. 150mm wafer production either to finer geometry 200mm wafer fabs or to our 150mm wafer fabs in Singapore. To effect this restructuring, we have announced plans to discontinue production at our 150mm fab in Rennes, France in March 2004, to close as soon as operationally feasible our 150mm wafer pilot line in Castelletto, Italy, and to downsize by approximately one-half our 150mm wafer fab in Carrolton, Texas. Furthermore, our 150mm wafer fab production in Agrate, Italy, and Rousset, France will be gradually phased-out in favor of 200mm wafer ramp-ups at existing facilities in these locations, which will be expanded or upgraded to accommodate additional finer geometry wafer capacity.

The restructuring plan and related manufacturing initiatives are expected to be substantially completed over the next eighteen months and result in a total pre-tax charge of approximately $350 million ($240 million after-tax), of which an estimated 50% will represent non-cash items. As noted above, of the total charge, $193 million ($130 million after-tax) was incurred in the 2003 third quarter. The approximately $157 million in pre-tax charges ($110 million after-tax) that were not recorded in the 2003 third quarter will be taken as incurred, in conjunction with the plan s evolution. We estimate that annualized after-tax cost savings at the completion of the plan will be approximately $120 million.

We continued to make investments to reinforce our leadership position as the market recovery evolves. This involves increased product design and development activities, new patent filings and marketing programs to address key customers as well as the integration of recent acquisitions.

Our profitability in the first nine months of 2003 was negatively affected by the following operating and non-operating factors:

Operating factors:

- Negative pricing trends due to the industry s manufacturing overcapacity;
- The impact of the U.S. dollar exchange rate against the euro and other currencies;
- Our determination to continue to invest in research and development and other strategic programs;

Non-operating factors:

- The impairment, restructuring charges and other related closure costs related to our previously announced restructuring plan;
- The loss in extinguishing convertible debt aimed in restructuring our debt at substantially lower average cost.

In the third quarter of 2003, we reduced interest expense and extended the maturity of certain long-term debt. We raised gross proceeds of $1.4 billion by issuing Zero Coupon Senior Convertible Bonds due 2013, with a negative yield of 0.5%. A large portion of the proceeds was used to repurchase additional existing Zero Coupon Senior Convertible Bonds due 2010 and yielding 3.75%. As a result of the repurchases, we expect to benefit from interest expense savings of $15 million for the full year 2003 and approximately $34 million in 2004.

Maintaining liquidity remains a priority and we believe our strong cash position and low debt-to-equity ratio provide us with important financial flexibility.

Looking ahead, our backlog and order rates for the fourth quarter of 2003 show solid sequential growth in end market demand. Thus, we currently expect our fourth quarter of 2003 revenues to increase by 6% to 12% on a sequential basis, representing a 7% to 13% improvement over the fourth quarter of 2002. On a constant currency basis, based on an exchange rate in effect at the close of the third quarter of 2003, gross margin is expected to be within the previously announced 36% to 37% range, after the effect of the recent black-out in Italy, which will penalize our fourth quarter gross margin by approximately 50 basis points.

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On a longer term basis, we believe that we are very well positioned to benefit from the industry s projected growth rate for 2004, which is expected to approximate 18%, and to be driven by further increases in silicon pervasion, higher levels of corporate spending worldwide and an improved balance in the industry between capacity and demand. Building upon our full year 2003 capital expenditures of approximately $1.2 billion, our 2004 capital expenditures will increase by about 33% to an estimated $1.6 billion, of which over 50% will be allocated to strategic research and development programs and leading-edge technologies.

Other Developments

On July 29, 2003, we announced the sale of up to $1.4 billion aggregate principal amount at issuance of negative-yield Zero Coupon Senior Convertible Bonds due 2013 (our 2013 bonds) in the international capital markets. On August 5, 2003, we issued $1,217 million aggregate principal amount at issuance of 2013 bonds, which constitute our direct, unsubordinated and unsecured obligations, carry a zero coupon and are subject to decretion in the amount due upon redemption or at maturity to produce a negative yield of 0.5% on a semi-annual bond equivalent basis. On August 26, 2003, we issued an additional $183 million aggregate principal amount at issuance of 2013 bonds, pursuant to the exercise in full of the increase option granted to the managers of the 2013 bond offering, raising total gross proceeds to $1.4 billion. The holder of each 2013 bond will be entitled to convert each 2013 bond into our common shares until maturity on July 5, 2013. We may redeem the 2013 bonds at their decreted value, in whole or in part, at any time from August 20, 2006 subject to our share price exceeding 130% of the results of the then-applicable conversion price (i.e., $1,000 divided by the then-applicable conversion rate). Investors may require us to redeem the 2013 bonds on August 5, 2006 at 98.509%, on August 5, 2008 at 97.528% and on August 5, 2010 at 96.556%. The total amount of shares corresponds to a maximum of 41.9 million underlying common shares, subject to adjustments. The conversion price is $33.43, equating to approximately a 55% premium above the average closing price of our shares on Euronext Paris and the Italian Stock Exchange on July 29, 2003. A large portion of the proceeds was used to repurchase additional existing outstanding 3.75% Zero Coupon Senior Convertible Bonds due 2010 (our 2010 bonds).

As a result of these transactions, we expect to benefit from interest expense savings of $15 million for the full year 2003 and approximately $34 million in 2004.

On August 12, 2003, Finmeccanica Finance S.A., a subsidiary of Finmeccanica, one of our largest shareholders, issued 438,725,000 aggregate principal amount of 0.375% senior unsecured exchangeable notes due 2010, guaranteed by Finmeccanica (the Finmeccanica notes). On September 2, 2003, Finmeccanica Finance S.A. issued an additional 62,675,000 of Finmeccanica notes, raising the issue size to 501,400,000. The Finmeccanica notes are exchangeable into up to 20 million of our existing common shares held by STMicroelectronics Holding II B.V. beginning on January 2, 2004.

On September 8, 2003, we reported that we had repurchased an additional $940 million of our 2010 bonds, representing 43.81% of the total amount originally issued, for a total amount paid of $737 million. The repurchased 2010 bonds were cancelled in accordance with the terms of the indenture. As a result of this additional repurchase, we incurred a non-operating pre-tax charge of approximately $22 million in the third quarter of 2003. Based on market interest rates, however, we estimate this transaction to result in savings of approximately $7 million in interest expense in the second half of 2003 and a further estimated savings of approximately $20 million in interest expense for 2004. This represents the third bond buy-back effected by us this year. To date, we have repurchased approximately $1,583 million of our 2010 bonds, representing 73.77% of the total amount originally issued, for a total amount paid of approximately $1,233 million. As a result of all these repurchases, we incurred a total pre-tax charge of approximately $37 million in the first nine months of 2003. As a result of these transactions, based upon market interest rate, we expect to benefit from interest expense savings of $15 million for the full year 2003 and approximately $34 million in 2004. We may proceed with additional future repurchases of our 2010 bonds in accordance with applicable laws, regulations and stock exchange requirements.

On September 15, 2003, our share registrar transferred nine million shares from the account of our principal shareholder, STMicroelectronics Holding II B.V. (ST Holding II), to a special account at Euroclear France. On November 6, 2003, we were informed that ST Holding II recently sold on the market, in several transactions, a total of 5.5 million shares, or approximately 0.6%, of our issued and outstanding common shares, held in that account. The sales were made as permitted by the shareholders agreement dated December 10, 2001, in compliance with current stock exchange regulations, and corresponded to indirect shareholdings held by Finmeccanica S.p.A.

Results of Operations

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

In the Semiconductors business area, we design, develop, manufacture and market a broad range of products, including discrete, memories and standard commodity components, application-specific integrated circuits (ASICSs), full custom devices and semicustom devices and application-specific standard products (ASSPs) for analog, digital, and mixed-signal applications. Our principal resource allocation decisions based on the Semiconductors business area are for ongoing expenditures on research and development and capital investments in front-end and back-end manufacturing facilities. We manage our semiconductor products in four segments, following our four main products groups: Telecommunications, Peripherals and Automotive; Discrete and Standard ICs; Memory Products and Consumer and Microcontroller (collectively referred to as the Groups). We manage our revenues and internal operating income performance based on these segments.

In the Subsystems business area, we design, develop, manufacture and market subsystems and modules for the telecom, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to our business as a whole, the Subsystems segment does not meet the requirements for a reportable segment as defined in Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (FAS 131).

The following tables present our internal net revenues and operating income (loss) by semiconductor product segment. For the computation of the Groups internal financial measurements, we are using certain internal rules of allocation for the costs not directly chargeable to the Groups, including cost of sales, selling, general and administrative expenses and a significant part of research and development expenses. Additionally, in compliance with our internal policies, certain items of costs are not charged to the Groups, including impairment, restructuring charges and other related closure costs, start-up costs of new manufacturing facilities, some strategic and special research and development programs, certain corporate level operating expenses, as well as certain other miscellaneous charges.

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	Three Months Ended		Nine Months Ended	
	September 28	September 27	September 28	September 27
	2002	2003	2002	2003
	(in millions, unaudited)			
Net revenues:				
Telecommunications, Peripherals and Automotive	$ 816	$ 797	$ 2,203	$ 2,367
Discrete and Standard ICs	283	302	768	874
Memory Products	253	351	734	900
Consumer and Microcontroller	267	338	755	933
Others(1)	26	15	72	50
Total	**$ 1,645**	**$ 1,803**	**$ 4,532**	**$ 5,124**

(1) Includes revenues from sales of subsystems and other products not allocated to product groups.

	Three Months Ended		Nine Months Ended	
	September 28	September 27	September 28	September 27
	2002	2003	2002	2003
	(in millions, unaudited)			
Operating income (loss) by product group:				
Telecommunications, Peripherals and Automotive	$ 155	$ 122	$ 434	$ 395
Discrete and Standard ICs	40	43	99	90
Memory Products	(8)	(8)	(4)	(47)
Consumer and Microcontroller	18	29	36	49
Total operating income of product groups	205	186	565	487
Others(2)	(20)	(250)	(173)	(306)
Total operating income (loss)	**$ 185**	**$ (64)**	**$ 392**	**$ 181**

(2) Includes operating income from sales of subsystems and other income (costs) not allocated to product groups.

	Three Months Ended		Nine Months Ended	
	September 28	September 27	September 28	September 27
	2002	2003	2002	2003
	(in millions, unaudited)			
Reconciliation to consolidated operating income (loss):				
Total operating income of product groups	$ 205	$ 186	$ 565	$ 487
Strategic and other research and development programs	(18)	(21)	(74)	(38)
Start-up costs	(8)	(17)	(46)	(37)

Impairment, restructuring charges and other related closure costs	(11)	(193)	(30)	(193)
Subsystems	1	(2)	2	2
Other non-allocated provisions	16	(17)	(25)	(40)
Total operating income (loss) of Others	(20)	(250)	(173)	(306)
Total	**$ 185**	**$ (64)**	**$ 392**	**$ 181**

Net Revenues by Location of Order Shipment, by Customers Region of Origin and by Product Family

The table below sets forth information on our net revenues by location of order shipment, by customers region of origin and by product family:

	Three Months Ended		Nine Months Ended	
	September 28 2002	September 27 2003	September 28 2002	September 27 2003
	(in millions, unaudited)			
Net Revenues by Location of Order Shipment:[1]				
Europe	$ 469	$ 495	$ 1,312	$ 1,456
North America	242	234	671	695
Asia/Pacific	701	820	1,970	2,252
Japan	85	85	194	243
Emerging Markets	148	169	385	478
Total	**$ 1,645**	**$ 1,803**	**$ 4,532**	**$ 5,124**
Net Revenues by Customers Region of Origin:[1]				
Europe	$ 712	$ 819	$ 1,934	$ 2,322
North America	532	492	1,502	1,468
Asia/Pacific	211	301	609	803
Japan	144	122	358	357
Emerging Markets	46	69	129	174
Total	**$ 1,645**	**$ 1,803**	**$ 4,532**	**$ 5,124**