STMICROELECTRONICS NV
Form 6-K
August 03, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated August 3, 2012

Commission File Number: 1-13546

STMicroelectronics N.V.
(Name of Registrant)

WTC Schiphol Airport
Schiphol Boulevard 265
1118 BH Schiphol Airport
The Netherlands
(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 Q Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes £ No Q

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 Q

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 Q

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 Second Quarter and First Half 2012:

- Operating and Financial Review and Prospects;
- Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, and Statements of Equity and related Notes for the three months and six months ended June 30, 2012; and
- Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow and Statements of Equity for the three months and six months ended June 30, 2012 and Notes thereto included elsewhere in this Form 6-K, and our annual report on Form 20-F for the year ended December 31, 2011 as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC") on March 5, 2012 (the "Form 20-F"). The following discussion contains statements of future expectations and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections "Critical Accounting Policies Using Significant Estimates", "Business Outlook" and "Liquidity and Capital Resources—Financial Outlook". 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 the factors set forth below, see "Cautionary Note Regarding Forward-Looking Statements" and "Item 3. Key Information—Risk Factors" included in the Form 20-F. We assume no obligation to update the forward-looking statements or such risk factors.

Our Management's Discussion and Analysis of Financial Position and Results of Operations ("MD&A") is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition and cash flows. Our MD&A is organized as follows:

- Critical Accounting Policies using Significant Estimates, which we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.
- Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months and six months ended June 30, 2012 designed to provide context for the other sections of the MD&A.
- Business Outlook, our expectations for selected financial items for the next quarter.
- Other Developments in 2012.
- Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months and six months ended June 30, 2012, as well as segment information.
- Legal Proceedings, describing the status of open legal proceedings.
- Related Party Transactions, disclosing transactions with related parties.
- Discussion of the impact of changes in exchange rates, interest rates and equity prices on our activity and financial results.
- Liquidity and Capital Resources, presenting an analysis of changes in our balance sheets and cash flows, and discussing our financial condition and potential sources of liquidity.
- Backlog and Customers, discussing the level of backlog and sales to our key customers.
- Disclosure Controls and Procedures.

- Cautionary Note Regarding Forward-Looking Statements.

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Critical Accounting Policies Using Significant Estimates

The preparation of our Unaudited Consolidated Financial Statements in accordance with U.S. GAAP requires us to make estimates and assumptions. The primary areas that require significant estimates and judgments by us include, but are not limited to:

- sales returns and allowances;
- determination of the best estimate of the selling price for deliverables in multiple element sale arrangements;
- inventory obsolescence reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory;
- provisions for litigation and claims and recognition and measurement of loss contingencies;
- valuation at fair value of assets acquired in a business combination, including intangibles, goodwill, investments and tangible assets, as well as the impairment of their related carrying values, and valuation at fair value of assumed liabilities;
- annual and trigger-based impairment review of our goodwill and intangible assets, as well as an assessment, in each reporting period, of events, which could trigger interim impairment testing;
- estimated value of the consideration to be received and used as fair value for asset groups classified as assets to be disposed of by sale and the assessment of probability of realizing the sale;
- assessment of credit losses and other-than-temporary impairment charges on financial assets;
- restructuring charges; and
- determination of the tax rate estimated on the basis of the projected tax amount for the full year, including deferred income tax assets, valuation allowances and assessment of provisions for uncertain tax positions and claims.

We base the estimates and assumptions on historical experience and on various other factors such as market trends and the latest available business plans 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. While we regularly evaluate our estimates and assumptions, the actual results we experience could differ materially and adversely from our estimates. To the extent there are material differences between our estimates and actual results, future results of operations, cash flows and financial position could be significantly affected. With respect to our Wireless Segment, our accounting relies on estimates based on the latest business plan of ST-Ericsson and its successful execution.

Our Consolidated Financial Statements include the ST-Ericsson joint ventures; in particular, we fully consolidate ST-Ericsson SA and related affiliates ("JVS"), which is owned 50% plus a controlling share by us and is responsible for the full commercial operations of the Wireless business, primarily sales and marketing. The other joint venture is focused on fundamental R&D activities. Its parent company is ST-Ericsson AT SA ("JVD"), which is owned 50% plus a controlling share by Ericsson and is therefore accounted for by us under the equity-method.

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 all of the following conditions have been met: (a) persuasive evidence of an arrangement exists; (b) delivery has occurred; (c) the selling price is fixed or determinable; and (d) collectability is reasonably assured. Our revenue recognition usually occurs at the time of shipment.

Consistent with standard business practice in the semiconductor industry, price protection is granted to distributor customers on their inventory of our products to compensate them for declines in market prices. We accrue a provision for price protection based on a rolling historical price trend computed on a monthly basis as a percentage of gross distributor sales. This historical price trend represents differences in recent months between the invoiced price and the final price to the distributor adjusted, if required, to accommodate for a significant change in the current market price. We record the accrued amounts as a deduction of revenue at the time of the sale. The ultimate decision to authorize a distributor refund remains fully within our control. The short outstanding inventory time period, our ability to foresee changes in standard inventory product pricing (as opposed to pricing for certain customized products) and our lengthy distributor pricing history, have enabled us to reliably estimate price protection provisions at period-end. If market conditions differ from our assumptions, this could have an impact on future periods. In particular, if market conditions were to deteriorate, net revenues could be reduced due to higher product returns and price reductions at the time these adjustments occur, which could severely impact our profitability.

Our customers occasionally return our products for technical reasons. Our standard terms and conditions of sale provide that if we determine that our products are non-conforming, we will repair or replace them, or issue a credit or rebate of the purchase price. In certain cases, when the products we have supplied have been proven to be defective, we have agreed to compensate our customers for claimed damages in order to maintain and enhance our business relationship. Quality returns are not related to any technological obsolescence issues and are identified shortly after sale in customer quality control testing. We provide for such returns when they are considered probable and can be reasonably estimated. We record the accrued amounts as a reduction of revenue.

Any potential warranty claims are subject to our determination that we are at fault and liable for damages, and that such claims usually must be submitted within a short period following the date of sale. This warranty is given in lieu of all other warranties, conditions or terms expressed or implied by statute or common law. Our contractual terms and conditions typically limit our liability to the sales value of the products that gave rise to the claim.

Our insurance policy relating to product liability only covers physical and other direct damages caused by defective products. We carry limited insurance against immaterial, non-consequential damages in the event of a product recall. We record a provision for warranty costs as a charge against cost of sales based on historical trends of warranty costs incurred as a percentage of sales which we have determined to be a reasonable estimate of the probable losses to be incurred for warranty claims in a period.

We maintain an allowance for doubtful accounts for estimated potential losses resulting from our customers' inability to make required payments. We base our estimates on historical collection trends and record a provision accordingly. Furthermore, we are required to evaluate our customers' financial condition periodically and record a provision for any specific account that we consider doubtful. In the second quarter of 2012, we did not record any new material specific provision related to bankrupt customers. If we receive information that the financial condition of our customers has deteriorated, resulting in an impairment of their ability to make payments, additional allowances could be required.

While the majority of our sales agreements contain standard terms and conditions, we may, from time to time, enter into agreements that contain multiple elements or non-standard terms and conditions, which require revenue recognition judgments. In such cases, following the guidance related to revenue recognition, we allocate the revenue to different deliverables qualifying as separate units of accounting based on vendor-specific objective evidence, third party evidence or our best estimates of selling prices of the separable deliverables.

Business combinations and goodwill. The purchase accounting method applied to business combinations requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the identifiable assets acquired and liabilities assumed. 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. At June 30, 2012, the value of goodwill amounted to $1,054 million.

Impairment of goodwill. Goodwill recognized in business combinations is not amortized but is tested for impairment annually in the third quarter, or more frequently if a triggering event indicating a possible impairment exists. Goodwill subject to potential impairment is tested at a reporting unit level, which represents a component of an operating segment for which discrete financial information is available.

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This impairment test determines whether 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, including its allocated goodwill. If lower, the implied fair value of the reporting unit goodwill is then compared to the carrying value of the goodwill and an impairment charge is recognized for any excess. In determining the fair value of a reporting unit, we use the lower of a value determined by applying a market approach with financial metrics of comparable public companies compared to an estimate of the expected discounted future cash flows associated with the reporting unit on the basis of the most updated five-year business plan. Significant management judgments and estimates are used in forecasting the future discounted cash flows. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market, our sales expectations and our costs evaluation, 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 prove to be incorrect, and future adverse changes in market conditions, changes in strategies, lack of performance of major customers or operating results of acquired businesses that are not in line with our estimates may require impairment of certain goodwill.

The table below presents the results of our most recent impairment tests:

Date of most recent impairment test	Reporting Unit	% estimated fair value exceeds carrying value
Q3 2011	HED(1)	275
Q3 2011	MMS	399
Q1 2012	Wireless	99

(1) In 2012, our HED product line was integrated into our DCG product line, which is part of our Digital Segment.

Our reporting unit "Wireless" includes ST-Ericsson JVS, which represents a large majority of Wireless activities. In addition, our Wireless product segment includes other items affecting our operating results related to the Wireless business. We monitor, and will continue to monitor, the carrying value of its assets since our Wireless segment registered the lowest ratio of estimated fair value exceeding carrying value in the above table, and experienced a material decline in revenues and operating results in the last several quarters. We performed an impairment test during the first quarter of 2012 in association with the release of ST-Ericsson's new strategic plan, which was announced on April 23, 2012. The new strategic plan includes the transfer of the development of the application processor platform from ST-Ericsson to our Digital product segment and an additional restructuring plan aimed to significantly reduce its workforce, accelerate time to market and lower the breakeven point by generating significant annual cost savings. The latest five year plan for the Wireless segment is based on our best estimate about future developments as well as market assumptions. Furthermore, ST-Ericsson is still in a challenging situation due to a significant drop in sales of new products expected from one of its largest customers and a continued decline in legacy products. ST-Ericsson continues to focus on securing the successful execution and delivery of its NovaThor ModAp platforms and Thor modems to customers while working to transform the company, which is aimed at lowering its breakeven point. In the event of the unsuccessful execution of this plan or in case of a delay in the development of new products or material worsening of business prospects, the value of ST-Ericsson for us could decrease to a value significantly lower than the current carrying amount of ST-Ericsson in our books and we may be required to take an impairment charge, which could be material. ST-Ericsson initiated its new restructuring plan announced in April 2012 aiming at reducing its workforce by 1,700 employees worldwide including the employees transferred to us; significant annual savings from the new and the ongoing restructuring plans are expected upon completion by the end of 2013. In line with expectations, our Wireless product segment's second quarter results improved compared to its first quarter, with net revenues reaching $344 million compared to $290 million in the first quarter of 2012. Our reported Wireless product segment registered a net operating loss of $240 million excluding restructuring charges, improving sequentially from a $293 million operating loss; in addition we have accounted for $55 million of restructuring charges related to the new and ongoing restructuring plans of ST-Ericsson, which are not allocated to the product segments and included in the segment Others. Furthermore, ST-Ericsson continued to report a negative cash flow. In case our Wireless business experiences a lack of or delay in results, in particular with respect to design-wins with customers to generate future revenues and operating cash flow, this could result in future material non-cash impairment charges. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or strategic alternatives, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than our current carrying value.

Intangible assets subject to amortization. Intangible assets subject to amortization include intangible assets purchased from third parties recorded at cost and intangible assets acquired in business combinations recorded at fair value, comprised of technologies and licenses, trademarks and contractual customer relationships and computer software. Intangible assets with finite useful lives are reflected net of any impairment losses and are amortized over their estimated useful life. We evaluate each period whether there is reason to suspect that intangible assets held for use might not be recoverable. If we identify events or changes in circumstances which are indicative that the carrying amount is not recoverable, we assess whether the carrying value exceeds the undiscounted cash flows associated with the intangible assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset's carrying value also exceeds its fair value. An impairment loss is recognized for the excess of the carrying amount over the fair value. Significant management judgments and estimates are required to forecast undiscounted cash flows associated with the intangible assets. Our evaluations are based on financial plans, including the plan for ST-Ericsson, updated with the latest available projections of growth in the semiconductor market and our sales expectations. It is possible, however, that the plans and estimates used may be incorrect and that future adverse changes in market conditions or operating results of businesses acquired may not be in line with our estimates and may therefore require us to recognize impairment charges on certain intangible assets.

We did not record any intangible assets impairment charge in the second quarter of 2012. We will continue to monitor the carrying value of our assets. If market conditions deteriorate or our Wireless business experiences a lack of or delay in results, in particular with respect to design-wins with customers to generate future revenues and cash flow, this could result in future non-cash impairment charges against earnings. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or by strategic transactions, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the one underlying our carrying amount.

At June 30, 2012, the value of intangible assets subject to amortization amounted to $577 million.

Property, plant and equipment. Our business requires substantial investments in technologically advanced manufacturing facilities, which may become significantly underutilized or obsolete as a result of rapid changes in demand and ongoing technological evolution. We estimate the useful life for the majority of our manufacturing equipment, the largest component of our long-lived assets, to be six years, except for our 300-mm manufacturing equipment whose useful life is estimated to be ten years. This estimate is based on our experience using the equipment over time. Depreciation expense is a major element of our manufacturing cost structure. We begin to depreciate newly acquired equipment when it is placed into service.

We evaluate each period if there is reason to suspect impairment on tangible assets or groups of assets held for use and we perform an impairment review when there is reason to suspect that the carrying value of these long-lived assets might not be recoverable, particularly in case of a restructuring plan. If we identify events or changes in circumstances which are indicative that the carrying amount is not recoverable, we assess whether the carrying value exceeds the undiscounted cash flows associated with the tangible assets or group of assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset's carrying value also exceeds its fair value. We normally estimate this fair value based on independent market appraisals or the sum of discounted future cash flows, using assumptions such as the utilization of our fabrication facilities and the ability to upgrade such facilities, change in the selling price and the adoption of new technologies. We also evaluate and adjust, if appropriate, the assets' useful lives at each balance sheet date or when impairment indicators are identified. Assets classified as held for sale are reported as current assets at the lower of their carrying amount and fair value less costs to sell and are not depreciated. Costs to sell include incremental direct costs to transact the sale that we would not have incurred except for the decision to sell.

Our evaluations are based on financial plans updated with the latest projections of growth in the semiconductor market and our sales expectations, from which we derive the future production needs and loading of our manufacturing facilities, and which 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 are subject to continuous modifications. If future growth differs from the estimates used in our plans, in terms of both market growth and production allocation to our manufacturing plants, this could require a further review of the carrying amount of our tangible assets and result in a potential impairment loss.

Inventory. Inventory is stated at the lower of cost or market value. Cost is based on the weighted average cost by adjusting the standard cost to approximate actual manufacturing costs on a quarterly basis; therefore, the cost is dependent on our manufacturing performance. In the case of underutilization of our manufacturing facilities, we estimate the costs associated with the excess capacity. These costs are not included in the valuation of inventory but are charged directly to cost of sales. Market value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and cost of completion. As required, we evaluate inventory acquired in business combinations at fair value, less completion and distribution costs and related margin.

While we perform, on a continuous basis, inventory write-offs of products and semi-finished products, the valuation of inventory requires us to estimate a reserve for obsolete or excess inventory as well as inventory that is not of saleable quality. Provisions for obsolescence are estimated for excess uncommitted inventories based on the previous quarter's sales, order backlog and production plans. To the extent that future negative market conditions generate order backlog cancellations and declining sales, or if future conditions are less favorable than the projected revenue assumptions, we could be required to record additional inventory provisions, which would have a negative impact on our gross margin.

Restructuring charges. We have undertaken, and we may continue to undertake, significant restructuring initiatives, which have required us, or may require us in the future, to develop formalized plans for exiting any of our existing activities. We recognize the fair value of a liability for costs associated with exiting an activity when we have a present obligation and the amount can be reasonably estimated. Given the significance and timing of the execution of the restructuring activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. This process can require more than one year due to requisite governmental and customer approvals and our capability to transfer technology and know-how to other locations. As we operate in a highly cyclical industry, we monitor and evaluate business conditions on a regular basis. If broader or newer initiatives, which could include production curtailment or closure of other manufacturing facilities, were to be taken, we may be required to incur additional charges as well as change estimates of the amounts previously recorded. The potential impact of these changes could be material and could have a material adverse effect on our results of operations or financial condition. In the second quarter of 2012, the net amount of restructuring charges and other related closure costs amounted to $56 million before taxes, almost entirely related to ST-Ericsson initiatives.

Share-based compensation. We measure our share-based compensation expense based on the fair value of the award on the grant date. This cost is recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period, and is adjusted for actual forfeitures that occur before vesting. Our share-based compensation plans may award shares contingent on the achievement of certain performance conditions based on financial objectives, including our financial results when compared to certain industry performances. In order to determine share-based compensation to be recorded for the period, we use significant estimates on the number of awards expected to vest, including the probability of achieving certain industry performances compared to our financial results, award forfeitures and employees' service period. Our assumption related to industry performances is generally taken with a lag of one quarter in line with the availability of the information.

Earnings (loss) on Equity-method Investments. We are required to record our proportionate share of the results of the entities that we account for under the equity-method. This recognition is based on results reported by these entities, relying on their internal reporting systems to measure financial results. The main equity-method investments as of June 30, 2012 are represented by 3Sun and ST-Ericsson JVD. In the second quarter of 2012, we recognized a loss of approximately $3 million related to 3Sun. In case of triggering events, we are required to determine whether our investment is temporarily or other-than-temporarily impaired. If impairment is considered to be other-than-temporary, we need to assess the fair value of our investment and record an impairment charge directly in earnings when fair value is lower than the carrying value of the investment. We make this assessment by evaluating the business on the basis of the most recent plans and projections or to the best of our estimates.

Financial assets. We classify our financial assets in the following categories: held-for-trading and available-for-sale. Such classification depends on the purpose for which the investments are acquired and held. We determine the classification of our financial assets at initial recognition. Unlisted equity securities with no readily determinable fair value are carried at cost; they are neither classified as held-for-trading nor as available-for-sale.

Held-for-trading and available-for-sale-financial assets are valued at fair value. The fair value of quoted debt and equity securities is based on current market prices. If the market for a financial asset is not active, if no observable market price is obtainable, or if the security is not quoted, we measure fair value by using assumptions and estimates. For unquoted equity securities, these assumptions and estimates include the use of recent arm's-length transactions; for debt securities without available observable market price, we establish fair value by reference to publicly available indexes of securities with the same rating and comparable or similar underlying collaterals or industries' exposure, which we believe approximates the orderly exit value in the current market. In measuring fair value, we make maximum use of market inputs and rely as little as possible on entity-specific inputs.

Income taxes. We are required to make estimates and judgments in determining income tax for the period, comprising current and deferred income tax. We need to assess the income tax expected to be paid or the benefit expected to be received related to the current year income (loss) in each individual tax jurisdiction and recognize deferred income tax for all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. Furthermore, we are required to assess all material open income tax positions in all tax jurisdictions to determine any uncertain tax positions, and to record a provision for those that are not more likely than not to be sustained upon examination by the taxing authorities, which could trigger potential tax claims by them. In such an event, we could be required to record additional charges in our accounts, which could significantly exceed our best estimates and our provisions.

We are also required to assess the likelihood of recovery of our deferred tax assets originated by our net operating loss carry-forwards. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable income that is sufficient to utilize loss carry-forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies. If recovery is not likely, we are required to record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable, which would increase our provision for income taxes.

As of June 30, 2012, we had current deferred tax assets of $175 million and non current deferred tax assets of $366 million, net of valuation allowances. Our deferred tax assets have increased in the past few years. In particular, a significant portion of the increase in the deferred tax assets was recorded in relation to net operating losses incurred in the ST-Ericsson joint venture. These net operating losses may not be realizable before their expiration in seven years, unless ST-Ericsson is capable of identifying successful tax strategies. In the second quarter of 2012, we performed an assessment of the future recoverability of the deferred tax assets resulting from past net operating losses. On the basis of ST-Ericsson's tax planning strategies and its most updated business plans, the amount of capitalized deferred tax assets on net operating losses as of March 31, 2012 has reached the limit of the maximum amount to be recovered. As a result, no additional amount of net operating losses has been capitalized since the beginning of the second quarter 2012. The future recoverability of these net operating losses is partly dependent on the successful market penetration of new product releases and additional tax planning strategies. However, negative developments in the new product roll out or in the ongoing evaluation of the tax planning strategies could require adjustments to our evaluation of the deferred tax asset valuation with a negative impact on our results.

We could be required to record further valuation allowances thereby reducing the amount of total deferred tax assets, resulting in a decrease in our total assets and, consequently, in our equity, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in our assessment or due to other factors, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of our ability to utilize net operating losses and tax credit carry-forwards in the future. Likewise, a change in the tax rates applicable in the various jurisdictions or unfavorable outcomes of any ongoing tax audits could have a material impact on our future tax provisions in the periods in which these changes could occur.

Patent and other Intellectual Property ("IP") litigation or claims. As is the case with many companies in the semiconductor industry, we have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other IP rights of third parties. Furthermore, we may become involved in costly litigation brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. In the event the outcome of a litigation claim is unfavorable to us, we may be required to purchase a license for the underlying IP right on economically unfavorable terms and conditions, possibly pay damages for prior use, and/or face an injunction, all of which singly or in the aggregate could have a material adverse effect on our results of operations and on our ability to compete. See Item 3. "Key Information — Risk Factors — Risks Related to Our Operations — We depend on patents to protect our rights to our technology and may face claims of infringing the IP rights of others" included in our Form 20-F, which may be updated from time to time in our public filings.

We record a provision when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly evaluate losses and claims with the support of our outside counsel to determine whether they need to be adjusted based on current information available to us. We currently estimate that the possible losses for known claims are in the range of $10 million to $48 million. From time to time we face cases where loss contingencies cannot readily be reasonably estimated. In the event of litigation that is adversely determined with respect to our interests, or in the event that 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. We are in discussion with several parties with respect to claims against us relating to possible infringement of other parties' IP rights. We are also involved in certain legal proceedings concerning such issues. See "Legal Proceedings".

As of June 30, 2012, we recorded an immaterial provision in our financial statements relating to third-party claims that, based on our current assessment, give rise to a significant risk of probable loss. There can be no assurance, however, that all other claims to which we are currently subject will be resolved in our favor. If the outcome of any claim or litigation were to be unfavorable to us, we could incur monetary damages, and/or face an injunction, all of which singly or in the aggregate could have an adverse effect on our results of operations and our ability to compete.

Other claims. We are subject to the possibility of 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 beyond assessed uncertain tax positions as well as claims for environmental damages. In 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 we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly re-evaluate any losses and claims and determine whether our provisions need to be adjusted based on the current information available to us. As of June 30, 2012, the majority of these claims were assessed as possible or remote. In the event we are unable to estimate the amount of such loss in a correct and timely manner, this could have a material adverse effect on our results of operations or financial condition at the time such loss were to materialize. Following a final award on April 5, 2012, by an arbitration tribunal set up according to the rules of the International Chamber of Commerce ("ICC"), we paid approximately $60 million to NXP Semiconductors B.V. ("NXP") in the second quarter pursuant to a dispute related to a claim from NXP for underloading charges to be included in the price of wafers which NXP supplied to our Wireless joint venture.

Pension and Post-Retirement Benefits. Our results of operations and our consolidated balance sheet include amounts for pension obligations and post-retirement benefits that are measured using actuarial valuations. At June 30, 2012, our pension and post-retirement benefit obligations net of plan assets amounted to $414 million based on the assumption that our employees will work with us until they reach the age of retirement. These valuations are based on key assumptions, including discount rates, expected long-term rates of return on funds and salary increase rates. These assumptions are updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. Any changes in the pension schemes or in the above assumptions can have an impact on our valuations. The measurement date we use for our plans is December 31.

Fiscal Year

Under Article 35 of our Articles of Association, our financial year extends from January 1 to December 31, which is the period end of each fiscal year. The first and second quarters of 2012 ended on March 31 and June 30, 2012, respectively. The third quarter of 2012 will end on September 29 and the fourth quarter will end on December 31, 2012. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year and can also differ from equivalent prior years' periods.

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Business Overview

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 major devices such as Microprocessors ("MPUs"), DRAMs, optoelectronics devices and Flash Memories).

The semiconductor market experienced a demand reduction and inventory correction, which started in the second half 2011 and bottomed in the first quarter 2012. In the first part of the second quarter, we experienced a growth in demand, with a good booking evolution; however, in the latest part of the quarter the customer sentiment changed driven by macroeconomic uncertainties. Based on the most recently published estimates by WSTS, semiconductor industry revenues decreased in the second quarter of 2012 on a year-over-year basis by approximately 2% for the TAM and by approximately 3% for the SAM to reach approximately $73 billion and $42 billion, respectively. Sequentially, in the second quarter of 2012, both the TAM and the SAM increased approximately by 5%.

On a year-over-year basis, we continued to register a decrease in our revenue performance driven by the uncertainty in the semiconductor market and a drop in demand by certain of our major customers, while we experienced an improvement on a sequential basis. Our second quarter 2012 revenues were $2,148 million, a 16.3% decrease on a year-over-year basis and a 6.5% increase sequentially, in line with our guidance. The year-over-year decrease was registered by all of our product segments and particularly by Digital. On a sequential basis, our revenue increased by 6.5%. The increase was driven by all of our product segments; in particular, our wholly owned businesses increased by approximately 4% while the Wireless segment grew by approximately 19%. Compared to the SAM, our performance was below the SAM on a year-over-year basis and above on a sequential basis.

Our effective average exchange rate for the first half of 2012 was $1.32 for €1.00 compared to $1.35 for €1.00 for the first half of 2011. Our effective exchange rate for the second quarter of 2012 was $1.32 for €1.00 compared to $1.33 for €1.00 for the first quarter of 2012 and $1.37 for €1.00 in the second quarter of 2011. Towards the end of the second quarter 2012, the U.S. dollar rate strengthened significantly compared to the Euro. However, due to hedging contracts maturing in the second quarter 2012, the sequential favorable impact on our manufacturing costs and operating expenses denominated in Euros was not significant. The impact was more important when comparing the second quarter 2012 and the first half 2012 to the equivalent year-ago periods. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see "Impact of Changes in Exchange Rates" below.

Our second quarter 2012 gross margin reached 34.3% of revenues, in line with our guidance, which indicated a gross margin of 34.4% plus or minus 1.5 percentage points. Gross margin decreased by 380 basis points compared to the prior year period, which benefited from a more favorable market environment. On a sequential basis, our gross margin increased by 470 basis points, mainly due to lower unused capacity charges, the charge related to the NXP arbitration award accounted in the first quarter, a more favorable product mix and some favorable currency effects which started to occur in the later portion of the second quarter.

Our operating result in the second quarter 2012 was a loss of $207 million compared to an operating income of $83 million in the prior year period, which benefited from a higher level of revenues in line with more favorable market conditions. On a sequential basis, our operating result improved from a loss of $352 million, mainly benefiting from higher revenues, lower unused capacity charges and a one-time charge for the NXP arbitration award impacting the first quarter. The operating result also benefited from a reduction in combined SG&A and R&D expenses, as a result of our efforts to continuously reduce expenses on a quarter by quarter basis, principally driven by ST-Ericsson's ongoing cost realignment initiatives.

Our second quarter financial results improved on a sequential basis despite a macro-driven change in customer sentiment in June. Thanks to broad-based growth and the continued expansion of our product portfolio into new applications, our second quarter net revenues and gross margin results were in line with our business outlook. Further, we saw a significant improvement in our net results, although there remains substantial progress to be made.

A critical component of our capability to improve our financial results is ST-Ericsson. During the second quarter, the joint-venture took its first steps in executing its new strategic plan and showed initial progress on all profit and loss metrics. In parallel, we are committed to ensuring that the “VLSI block”, which for us includes our digital businesses plus ST-Ericsson, becomes self-sustainable and this is one of our top priorities.

Introducing new products into the fastest growing applications, from energy management to healthcare and wellness, from trust and data security to smart consumer devices, is delivering results. During the second quarter, we ramped production of a pressure sensor and an iNEMO module containing an integrated gyroscope and accelerometer for Samsung's latest and most advanced smartphone, we shipped in volume AMOLED drivers for smartphones and we won key design-wins in smart power for automotive and for several STM32 32-bit microcontrollers in new fitness applications. We also took an important step towards creating a unified processing platform thanks to the recently completed transfer of the ST-Ericsson application processor development team. This will enable us to leverage our broad system knowledge and customer relationships to a much larger addressable market.

Business Outlook

As we saw during the end of the second quarter, the global economic environment has weakened. As a result, bookings in June softened and remain somewhat volatile.

Nonetheless, we continue to expect sequential revenue growth and gross margin improvement with respect to the third quarter, thanks to our new product momentum, in particular in MEMS, Microcontrollers and Power MOSFET & IGBT.

Looking forward, key operational priorities as we navigate the softness in the market environment include market share gains in the second half of the year and careful management of our assets and investments in order to maintain a solid net financial position. In this regard, we are reducing by approximately 25% our full year 2012 capital expenditures plan to be in the range of $500 to $600 million for 2012.

Furthermore, we are focused on delivering continued expense reduction. Overall, we will become a much leaner company with increased flexibility to adjust to market conditions and reduce our earnings volatility.

We expect third quarter 2012 revenues to grow sequentially in the range of about 2.5%, plus or minus 3 percentage points. Reflecting a similar level of utilization at our facilities compared to the second quarter, gross margin in the third quarter is expected to be about 35.3%, plus or minus 1.5 percentage points.

This outlook is based on an assumed effective currency exchange rate of approximately $1.27 = €1.00 for the 2012 third quarter and includes the impact of existing hedging contracts. The third quarter will close on September 29, 2012.

These are forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially; in particular, refer to those known risks and uncertainties described in "Cautionary Note Regarding Forward-Looking Statements" and Item 3. "Key Information — Risk Factors" in our Form 20-F as may be updated from time to time in our SEC filings.

Other Developments in 2012

On January 27, 2012, we announced that we were reorganizing our Sales & Marketing organization with the primary objectives to accelerate sales growth and gain market share. The changes have been designed along three key drivers:

- Strengthening the effectiveness of the development of global accounts;
- Boosting demand creation through an enhanced focus on the geographical coverage; and
- Establishing marketing organizations in the Regions fully aligned with the Product Groups.

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Our Sales and Marketing organization is structured in six units:

- Four Regional Sales Organizations, all with a very similar structure to enhance coordination in the go-to-market activities and all strongly focused on accelerated growth:

  1. Europe, Middle East and Africa Region led by Paul Grimme;
  2. Americas Region led by Bob Krysiak;
  3. Greater China-South Asia Region led by François Guibert; and
  4. Japan-Korea Region led by Marco Cassis.

- Two Major Accounts units for our established global customers aimed at the further development of the business relationship between us and those clients:

  1. Europe Major Accounts led by Paul Grimme; and
  2. Americas Major Accounts led by Bob Krysiak.