STMICROELECTRONICS NV
Form 6-K
May 19, 2009

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 May 19, 2009

Commission File Number: 1-13546

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 Q 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)(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 First Quarter 2009:

- Operating and Financial Review and Prospects;

- Unaudited Interim Consolidated Statements of Income, Balance Sheets, Statements of Cash Flow, and Statements of Changes in Equity and related Notes for the three months ended March 28, 2009; 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, Balance Sheets, Statements of Cash Flow and Statements of Changes in Equity for the three months ended March 28, 2009 and Notes thereto included elsewhere in this Form 6-K and in our annual report on Form 20-F for the year ended December 31, 2008 as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC") on May 13, 2009 (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.

Critical Accounting Policies Using Significant Estimates

The preparation of our Consolidated Financial Statements, in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), requires us to make estimates and assumptions that have a significant impact on the results we report in our Consolidated Financial Statements, which we discuss under the section "Results of Operations." Some of our accounting policies require us to make difficult and subjective judgments that can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. The primary areas that require significant estimates and judgments by management include, but are not limited to: sales returns and allowances; inventory reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory; litigation and claims; valuation at fair value of acquired assets including intangibles and their estimated amortization periods and assumed liabilities in a business combination; goodwill, investments and tangible assets as well as the impairment of their related carrying values; the assessment in each reporting period of events, which could trigger interim impairment testing; measurement of the fair value of securities classified as available-for-sale, including debt securities, for which no observable market price is obtainable; the valuation of equity investments under the equity method; the assessment of other-than-temporary impairment charges on financial assets; the valuation of noncontrolling interests, particularly in case of contribution in kind as part of a business combination; restructuring charges; assumptions used in calculating pension obligations and share-based compensation including assessment of the number of awards expected to vest upon the satisfaction of certain conditions of future performance; measurement of hedge effectiveness of derivative instruments; deferred income tax assets including the required valuation allowance and liabilities as well as provisions for specifically identified income tax exposures and income tax uncertainties; and the determination of the estimated amount of taxes to be paid for the full year, including forecasted results of ordinary taxable income by jurisdiction. We base our estimates and assumptions on historical experience and on various other factors such as market trends, market comparables, business plans and levels of materiality that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities. While we regularly evaluate our estimates and assumptions, 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 significantly 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 all of the following conditions have been met: (a) persuasive evidence of an arrangement exists; (b)

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delivery has occurred; (c) the selling price is fixed or determinable; and (d) collectibility is reasonably assured. This 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 existing inventory of our products to compensate them for declines in market prices. The ultimate decision to authorize a distributor refund remains fully within our control. 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 move in the current market price. 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. We record the accrued amounts as a deduction of revenue at the time of the sale. 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.

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. Quality returns are always associated with end-user customers, not with distribution channels. We provide for such returns when they are considered likely and can be reasonably estimated. We record the accrued amounts as a reduction of revenue.

Our insurance policies relating to product liability only cover physical and other direct damages caused by defective products. We carry only 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. 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.

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' credit ratings from time to time and take an additional provision for any specific account that we consider doubtful. In the first quarter of 2009, we did not record any new material specific provision related to bankrupt customers other than our standard provision of 1% of total receivables based on estimated historical collection trends. 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. Such deterioration is increasingly likely given the current crisis in the credit markets. Under the current financial situation, we are obliged to hold shipment to certain of our customers on credit watch, which affects our sales and aims at protecting us from credit risk.

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. Where multiple elements exist in an agreement, the revenue arrangement is allocated to the different elements based upon verifiable objective evidence of the fair value of the elements, as governed under

Emerging Issues Task Force ("EITF") Issue No. 00-21, Revenue Arrangements with Multiple Deliverables ("EITF 00-21").

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• 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 IP R&D, which is expensed immediately. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are instead 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. At March 28, 2009, the value of goodwill amounted to $1,121 million. Of such amount, $173 million was recognized during the first quarter of 2009 at the creation of ST-Ericsson following the purchase price allocation.

• Impairment of goodwill. Goodwill recognized in business combinations is not amortized and is instead 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 reporting unit level, which represents a component of an operating segment for which discrete financial information is available and is subject to regular review by segment management. 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 usually estimate the expected discounted future cash flows associated with the reporting unit. Significant management judgments and estimates are used in forecasting the future discounted cash flows 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 relevant cost structure; the discount rates applied using a weighted average cost of capital; and the perpetuity rates used in calculating cash flow terminal values. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market evolution, 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 be incorrect, and future adverse changes in market conditions or operating results of acquired businesses that are not in line with our estimates may require impairment of certain goodwill. As our market capitalization declined to a level below our book value, we performed analyses during the fourth quarter of 2008 and the first quarter of 2009 using the most current long term financial plan available. We recorded specific impairment charges related to the carrying value of certain marketable securities and equity investments during the period, as well as $6 million on goodwill. However, many of the factors used in assessing fair values for such assets are outside of our control and the estimates used in such analyses are subject to change. Due to the ongoing uncertainty of the current market conditions, which may continue to negatively impact our market value, we will continue to monitor the carrying value of our assets. If market and economic conditions deteriorate further, this could result in future non-cash impairment charges against income. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or strategic transactions, including ST-Ericsson, and possible further impairment charges relating to our investment in Numonyx, particularly in the event of a downward shift in expected revenues or operating cash flow in relation to our current plans.

• Intangible assets subject to amortization. Intangible assets subject to amortization include the cost of technologies and licenses purchased from third parties, as well as, as a result of the purchase method of accounting for acquisitions, purchased software and internally developed software that is capitalized. In addition, intangible assets subject to amortization include intangible assets acquired through business combinations such as core technologies and customer relationships. Intangible assets subject to amortization are reflected net of any impairment losses and are amortized over their estimated useful life. 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 determining recoverability, we initially 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

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carrying amount over the fair value. We normally estimate the fair value based on the projected discounted future cash flows associated with the intangible assets. Significant management judgments and estimates are required to forecast the future operating results 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 the relevant cost structure. Our evaluations are based on financial plans updated with the latest available projections of growth in the semiconductor market and our sales expectations. They 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 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 of certain intangible assets. We did not record any charges related to the impairment of intangible assets subject to amortization in 2008. At March 28, 2009, the value of intangible assets subject to amortization amounted to $894 million, of which $46 million was related to the ST-Ericsson joint venture consolidated in the first quarter of 2009 and $570 million was related to the ex-NXP wireless business acquired in August 2008.

• 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 was 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 new equipment when it is placed into service.

We perform an impairment review when there is reason to suspect that the carrying value of tangible assets or groups of assets might not be recoverable. Factors we consider important which could trigger such a review include: significant negative industry trends; significant underutilization of the assets or available evidence of obsolescence of an asset; strategic management decisions impacting production or an indication that an asset's economic performance is, or will be, worse than expected; and a more likely than not expectation that assets will be sold or disposed of prior to their estimated useful life. In determining the recoverability of assets to be held and used, we initially 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 market 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 the continued validity of an asset's useful life when impairment indicators are identified. Assets classified as held for sale are reflected at the lower of their carrying amount and fair value less selling costs and are not depreciated during the selling period. Selling costs 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. At March 28, 2009, $7 million of impairment charges were recorded on long-lived assets of our manufacturing sites in Carrollton, Texas and in Phoenix, Arizona.

• Inventory. Inventory is stated at the lower of cost and net realizable 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 upon 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 inventories but are charged directly to the cost of sales. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable

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selling expenses and cost of completion. As required, we evaluate inventory acquired as part of purchase accounting at fair value, less completion and distribution costs and related margin.

The valuation of inventory requires us to estimate 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.

• Business combination. The purchase method of accounting for business combinations requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired. 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. On February 3, 2009, we announced the closing of our agreement to merge ST-NXP Wireless into a 50/50 joint venture with Ericsson Mobile Platforms ("EMP"). Ericsson contributed $1,145 million to the joint venture, out of which $700 million was paid to us. We also received $99 million as an equity investment in ST-Ericsson AT Holding AG ("JVD"), in which we own 50% less a controlling share held by Ericsson. Our contribution to the joint venture represented a total amount of $2,210 million, of which $1,105 million was allocated to noncontrolling interests in the wireless business. The purchase price allocation resulted in the recognition of $48 million in customer relationships, $8 million in property, plant and equipment, $62 million liabilities net of other current assets, $173 million on goodwill and $306 million on Ericsson's noncontrolling interest in the joint venture.

• 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 a probable liability exists and it can be reasonably estimated. We record estimated charges for non-voluntary termination benefit arrangements such as severance and outplacement costs meeting the criteria for a liability as described above. Given the significance and 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. 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 first quarter of 2009, the net amount of restructuring charges and other related closure costs amounted to $56 million before taxes, mainly including $43 million to our 2007 restructuring plan, $6 million as impairment of goodwill and $7 million to our other restructuring initiatives.

• Share-based compensation. We are required to expense our employees' share-based compensation awards for financial reporting purposes. We measure our share-based compensation cost based on its fair value on the grant date of each award. 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 financial objectives, including market performance and financial results. In order to assess the fair value of this share-based compensation, we are required to estimate certain items, including the probability of meeting market performance and financial results targets, forfeitures and employees' service period. As a result, in relation to our nonvested Stock Award Plan, we recorded a total pre-tax expense of $12 million in the first quarter of 2009, out of which $2 million was related to the 2006 plan; $7 million to the 2007 plan; and $3 million to the 2008 plan.

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• Earnings (loss) on Equity Investments. We are required to record our proportionate share of the results of the entities that are consolidated by us under the equity method. This recognition is based on results reported by these entities, sometimes on a one-quarter lag, and, for such purpose, we rely on their internal controls. As a result, in the first quarter of 2009, we recognized approximately $29 million as our proportional interest in the loss recorded by Numonyx in the fourth quarter of 2008, based on our 48.6% ownership interest in Numonyx, net of amortization of basis differences. In case of triggering events, we are required to determine the fair value of our investment and assess the classification of temporary versus other-than-temporary impairments of the carrying value. 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. In the first quarter of 2009, due to deterioration of both the global economic situation and the Memory market segment, as well as Numonyx's results, we assessed the fair value of our investment and recorded an additional other-than temporary impairment charge of $200 million. The calculation of the impairment was based on both an income approach, using discounted cash flows, and a market approach, using the metrics of comparable public companies. In addition, we recognized $4 million related to the ST-Ericsson entities consolidated under the equity method, which included the amortization of basis differences.

• Financial assets. We classify our financial assets in the following categories: held-for-trading financial assets and available-for-sale financial assets. At March 28, 2009, we did not hold any investments classified as held-to-maturity financial assets. Additionally, upon the adoption on January 1, 2008 of Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of the Financial Accounting Standards Board ("FASB") Statement No. 115 ("FAS 159"), we did not elect to apply the fair value option on any financial assets. Such classification depends on the purpose for which the investments are acquired. Management determines the classification of its 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. Regular purchases and sales of financial assets are recognized on the trade date – the date on which we commit to purchase or sell the asset. Financial assets are initially recognized at fair value, and transaction costs are expensed in the consolidated statements of income. Available-for-sale financial assets and held-for-trading financial assets are subsequently carried at fair value. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and we have transferred substantially all risks and rewards of ownership. The gain (loss) on the sale of the financial assets is reported as a non-operating element on the consolidated statements of income. The fair values of quoted debt and equity securities are based on current market prices. If the market for a financial asset is not active and if no observable market price is obtainable, 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 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. In the first quarter of 2009, we registered a loss of $58 million on the value of Auction Rate Securities. Pending the execution of the favorable arbitration award against Credit Suisse by FINRA, the Auction Rate Securities are still considered as owned by us and, as such, required an impairment review. Based on the usual market to model methodology, this resulted in an additional impairment of $58 million on the value of the Auction Rate Securities in the first quarter of 2009 that was considered as other than temporary.

• Income taxes. We are required to make estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments also occur in the calculation of certain tax assets and liabilities and provisions. Furthermore, the adoption of the FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 ("FIN 48") requires an evaluation of the probability of any tax uncertainties and the recognition of the relevant charges.

We are also required to assess the likelihood of recovery of our deferred tax assets. 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 March 28, 2009, we

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believed that all of the deferred tax assets, net of valuation allowances, as recorded on our consolidated balance sheet, would ultimately be recovered. However, should there be a change in our ability to recover our deferred tax assets (in our estimates of the valuation allowance) or a change in the tax rates applicable in the various jurisdictions, this could have an impact on our future tax provision in the periods in which these changes could occur.

• Patent and other intellectual property 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, communication alleging possible infringement of patents and other intellectual property 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 intellectual property 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" included in the Form 20-F, as 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. Legal costs associated with claims are expensed as incurred. 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' intellectual property rights. We are also involved in several legal proceedings concerning such issues.

As of March 28, 2009, based on our assessment, we did not record any provisions in our financial statements relating to third party intellectual property rights since we had not identified any risk of probable loss that is likely to arise out of asserted claims or ongoing legal proceedings. There can be no assurance, however, that we will be successful in resolving these issues. If we are unsuccessful, or 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 operation and our ability to compete. Furthermore, our products as well as the products of our customers that incorporate our goods may be excluded from entry into U.S. territory pursuant to an exclusion order.

• Pension and Post Retirement Benefits. Our results of operations and our consolidated balance sheet include the impact of pension and post retirement benefits that are measured using actuarial valuations. At March 28, 2009, our pension obligations amounted to $313 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 the majority of our plans is December 31.

• 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 and provisions for specifically identified income tax exposure 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 reevaluate any losses and claims and determine whether our provisions need to be adjusted based on the current information

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available to us. In the event we are unable to estimate in a correct and timely manner the amount of such loss this could have a material adverse effect on our results of operations or financial condition at the time such loss were to materialize.

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 quarter of 2009 ended on March 28, 2009. The second quarter of 2009 will end on June 27, 2009 and the third quarter of 2009 will end on September 26, 2009. The fourth quarter of 2009 will end on December 31, 2009. 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.

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 PC motherboard major devices such as microprocessors ("MPUs"), dynamic random access memories ("DRAMs"), optoelectronics devices and Flash Memories).

In the first quarter of 2009, the semiconductor industry continued to be negatively impacted by the difficult conditions in the global economy. These deteriorated conditions caused the TAM and the SAM to register double-digit negative growth in the first quarter of 2009. Based on recently published estimates, in the first three months of 2009 semiconductor industry revenues declined on a year-over-year basis by approximately 30% for the TAM and 29% for the SAM to reach approximately $44 billion and $27 billion, respectively.

With reference to our business performance, following the deconsolidation of our FMG segment during the first quarter of 2008, the consolidation of the NXP wireless business on August 2, 2008 and the consolidation of the EMP wireless business as of February 3, 2009, our operating results, as reported, are no longer directly comparable to previous periods.

Our revenues as reported in the first quarter of 2009 were $1,660 million, a decline of 33.0% over the same period in 2008, driven by significant weakness across most geographic regions. This trend reflected double-digit declines in all main market applications.

Included in our first quarter 2009 net revenues as reported was a $238 million contribution from the NXP and EMP wireless businesses, which was lower than the $299 million contribution from FMG revenues that had occurred in the first quarter of 2008.

On a sequential basis, first quarter 2009 revenues decreased 27.1%, with most market segments negatively impacted by the adverse conditions originating from the economic downturn, which resulted in a strong reduction in demand.

In the first quarter of 2009, our effective exchange rate was $1.33 for €1.00, which reflects actual exchange rate levels and the impact of cash flow hedging contracts, compared to an effective exchange rate of $1.47 for €1.00 in the first quarter of 2008 and $1.40 for €1.00 in the fourth quarter of 2008. 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 gross margin as reported for the first quarter of 2009 decreased by approximately 10 percentage points to 26.3% on a year-over-year and sequential basis, mainly due to a lower sales volume negatively impacted by the deteriorating economic conditions. Furthermore, our gross margin for the first quarter of 2009 was impacted more than 8 percentage points by $139 million of underutilization charges associated with the closure of several sites in response to falling demand. The negative impact of such charges was partially offset by favorable fluctuations in the dollar exchange rate.

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Excluding the contribution of the acquired EMP wireless business, our profit margin would have been 25.3%. This is not a U.S. GAAP measure as it does not include gross margin from EMP for $28 million, but it is presented to provide a more direct comparison to previous periods.

The profitable contribution of the improved product mix, the favorable currency impact and the consolidation of the EMP business as of February 3, 2009 was offset by the negative impact of substantially lower sales and the aforementioned unused capacity charges.

Our operating expenses, comprising selling, general and administrative expenses, as well as R&D, slightly increased in the first quarter of 2009 compared to the first quarter of 2008 due to an increase in R&D activities following our recent acquisitions (Genesis, NXP, EMP), which was partially offset by favorable currency movements. Our R&D expenses in the first quarter of 2009 were net of $38 million of tax credits associated with our ongoing programs.

In the first quarter of 2009, we continued certain ongoing restructuring activities and also implemented new headcount reduction programs to streamline our structure in light of the current adverse market conditions. We also impaired goodwill for $6 million. This resulted in impairment and restructuring charges of approximately $56 million.

Our "Other income and expenses, net" improved significantly in the first quarter of 2009, supported by higher R&D funding originated by the new contracts signed with the French Administration to fund certain of our R&D programs covering the period 2008 through 2012 and by a favorable result in our currency exchange transactions, resulting in net income of $63 million compared to income of $9 million in the equivalent period in the first quarter of 2008.

Our as reported operating result in the first quarter of 2009 was a loss of $393 million compared to a loss of $88 million in the first quarter of 2008. Our operating result was largely negatively impacted by declining demand and unused capacity charges and partially balanced by the improved dollar exchange rate.

The valuation of the fair value of our Auction Rate Securities – purchased for our account by Credit Suisse Securities LLC contrary to our instruction – required recording an other-than-temporary impairment charge of $58 million in the first quarter of 2009. On February 16, 2009 the arbitration panel of the Financial Industry Regulatory Authority ("FINRA") awarded us approximately $406 million comprising compensatory damages as well as interests, attorneys' fees and authorized us to retain interest of approximately $25 million that has already been paid. We have petitioned the United States court for the Southern District of New York seeking enforcement of the award. Credit Suisse has responded by seeking to vacate the FINRA award. Upon receipt of the payment we will transfer ownership of our unauthorized auction rate securities to Credit Suisse. Until the award is executed, we will continue to own the Auction Rate Securities and, consequently, we account for them in the same manner as in the prior periods.

Interest income decreased significantly from $20 million as at March 30, 2008 to $1 million as at March 28, 2009 as a consequence of less interest income received on our financial resources as a result of significantly lower U.S. dollar and Euro denominated interest rates compared to the first quarter of 2008. We expect our interest income to benefit in the future from a positive cash position resulting from the $1.1 billion contribution made by Ericsson to the joint venture.

In the first quarter of 2009 we registered a $232 million equity loss mainly related to our proportional stake in Numonyx, which included a $200 million impairment on our Numonyx equity investment to reflect the worsening conditions in the memory industry as well as our $29 million share of Numonyx's fourth quarter 2008 equity loss.

In summary, our profitability during the first quarter of 2009 was negatively impacted by the following factors:

- falling demand as a result of the global economic downturn;

- an impairment loss recorded on our equity investment in Numonyx;
- manufacturing inefficiencies arising from under utilization of our fabs;

- a negative pricing trend;
- an other-than-temporary loss on financial assets; and
- additional impairment and other restructuring charges related to our ongoing programs.

The factors above were partially offset by the following favorable elements:

- our improved product mix, which contributed to our revenues; and
- the favorable currency impact.

The market environment during the first quarter was difficult, although our revenues and gross margin generally tracked to the plans we had at the beginning of the quarter. Our position in the wireless core business has improved significantly as a result of the completion of the wireless joint venture with Ericsson in early February. This action is a key milestone in reshaping our product portfolio and ST-Ericsson is now moving aggressively towards sustainable profitability. Our overall operational performance in the first quarter was focused on mitigating the impact of market conditions on cash flow. We reduced our inventory levels by $184 million and we will continue to focus on inventory reduction. Finally, we have returned to a net cash position from a net debt position. Our actions to improve our financial flexibility continue to support our business strategy.

We made solid progress on reducing our costs through the realignment of manufacturing operations and streamlining of expenses. In the first quarter, we discontinued manufacturing operations at our Ain Sebaa assembly plant in Morocco and in mid-April we closed our Carrollton, Texas wafer fab. Overall, in the first quarter of 2009 we reduced headcount by 3,200, excluding the wireless transaction. We believe these actions and others demonstrate that we are well aligned with our goal to reduce costs by over $700 million in 2009 compared to our 2008 fourth quarter annualized base. Also, ST-Ericsson just announced an additional restructuring program which is expected to contribute to the joint venture approximately $230 million in annualized cost savings at completion by the second quarter of 2010.

Business Outlook

It is clear that the global economic environment deteriorated further during the first quarter of 2009. While we have recently begun to see some indicators of improvement in booking activity and visibility, we believe it is still too early to determine how sustainable these signs are across all applications and geographies. We remain focused on advancing our key priorities for 2009, as we execute on our ongoing product development, marketing, productivity and cost savings programs. Current uncertainty in the global financial markets, economic recession in the world's major economies, seasonality, and the effect on demand for semiconductor products in the key application markets and from key customers served by our products makes it extremely difficult to accurately forecast product demand and other related matters. Consequently, this quarter we will only provide approximate revenue and gross margin internal planning targets with respect to the second quarter of 2009. We are currently planning for revenues in the second quarter 2009 to be in the range of $1.73 billion to $1.93 billion. As we continue our efforts to reduce inventory levels during this timeframe, fab loading will run at levels of about 50%, driving gross margin to an extraordinary low level which we are planning for internal purposes to be in the mid 20s, as a percentage of sales. Gross margin is subject to changes in demand levels and pricing that could impact fab loading, inventory write-offs, mix and unit costs, and combined with currency fluctuations could potentially create additional margin variability.

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" herein 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 the First Quarter of 2009

On February 3, 2009, we announced the closing of our agreement to merge ST-NXP Wireless into a joint venture with EMP. Ericsson contributed $1.1 billion to the joint venture, out of which $700 million was paid to us. Prior to the closing of the transaction, we exercised our option to buy out NXP's 20% ownership stake of ST-NXP Wireless. Alain Dutheil, presently CEO of ST-NXP Wireless and our Chief Operating Officer, leads the joint venture as President and Chief Executive Officer. Governance is balanced. Each parent appoints four directors to the board with Carl-Henric Svanberg, President and CEO of Ericsson, as the Chairman of the Board and Carlo Bozotti, our President and CEO, as the Vice Chairman. Employing about 8,000 people - roughly 3,000 from Ericsson and approximately 5,000 from us - the new global leader in wireless technologies is headquartered in Geneva, Switzerland.

On February 16, 2009, we announced that an arbitration panel of FINRA, in a full and final resolution of the issues submitted for determination, awarded us, in connection with sales of unauthorized auction rate securities made to us by Credit Suisse, approximately $406 million, comprising compensatory damages, as well as interest, attorney's fees and consequential damages, which were assessed against Credit Suisse. In addition, we are entitled to retain an interest award of approximately $25 million that has already been paid. Upon receipt of the payment, we will transfer ownership of our portfolio of unauthorized auction rate securities to Credit Suisse. On February 17, 2009, we filed a petition in the United States District Court for the Southern District of New York seeking enforcement of the award. Credit Suisse has responded by seeking to vacate the FINRA award.

On March 31, 2009, we announced the completion of our $500 million medium-term committed credit-facilities program. The $500 million of credit facilities were provided on a bilateral basis by Intesa-San Paolo, Société Générale, Citibank, Centrobanca (UBI Group) and Unicredit. The loan agreements had been executed between October 2008 and March 2009 with commitments from the banks for up to 3 years. We do not currently envisage any utilization of these credit facilities, which have been set up for liquidity purposes to strengthen the Company's financial flexibility.

At our annual general meeting of shareholders to be held on May 20, 2009, the following proposals, inter alia, will be submitted for our shareholders' approval:

- The distribution of a cash dividend of $0.12 per common share, to be paid in four equal installments, on May 25, 2009, August 24, 2009, November 23, 2009 and February 22, 2010. Payment of an installment will be made to those deriving their rights from our common shares at the aforementioned dates;

- The reappointment for a three-year term, expiring at the 2012 Annual General Meeting, for the following members of the Supervisory Board: Mr. Doug Dunn and Dr. Didier Lamouche; and

- The maximum number of "restricted" Share Awards under our existing 5-year Employee Unvested Share Award Plan (2008-2012) of 30,500,000, which includes any Unvested Stock Awards granted to our President and CEO as part of his compensation, with the maximum number of "restricted" shares in 2009 to be 6,100,000.

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 and standard commodity components, application-specific integrated circuits ("ASICs"), full-custom devices and semi-custom devices and application-specific standard products ("ASSPs") for analog, digital and mixed-signal applications. In addition, we further participate in the manufacturing value chain of Smartcard products through our divisions, which include the production and sale of both silicon chips and Smart cards.

As of March 31, 2008, following the creation with Intel of Numonyx, a new independent semiconductor company from the key assets of our and Intel's Flash memory business ("FMG deconsolidation"), we ceased reporting under the FMG segment.

Starting August 2, 2008, we reorganized our product groups. A new segment was created to report wireless operations. In addition, as of February 3, 2009, we added the EMP product line to our Wireless segment.

The current organization is as follows:

- Automotive Consumer Computer and Communication Infrastructure Product Groups ("ACCI"), comprised of four product lines:
  - Home Entertainment & Displays ("HED");
  - Automotive Products Group ("APG");
  - Computer and Communication Infrastructure ("CCI"); and
  - Imaging ("IMG"), starting January 1, 2009.
- Industrial and Multisegment Products Sector ("IMS"), comprised of:
  - Analog Power and Micro-Electro-Mechanical Systems ("APM"); and
  - Microcontrollers, non-Flash, non-volatile Memory and Smart Card products ("MMS").
- Wireless Segment, comprised of four product lines:
  - Wireless Multi Media ("WMM");
  - Connectivity & Peripherals ("C&P");
  - Cellular Systems ("CS"); and
  - Ericsson Mobile Platforms ("EMP"), in which, since February 3, 2009, we report the portion of sales and operating results of ST-Ericsson as consolidated in our revenue and operating results.

We have restated our results in prior periods for illustrative comparisons of our performance by product segment. The preparation of segment information based on the current segment structure requires management to make significant estimates, assumptions and judgments in determining the operating income of the segments for the prior reporting periods. Management believes that the restated 2008 presentation is consistent with 2009's and uses these comparatives when managing the Company.

Our principal investment and resource allocation decisions in the semiconductor business area are for expenditures on R&D and capital investments in front-end and back-end manufacturing facilities. These decisions are not made by product segments, but on the basis of the semiconductor business area. All these product segments share common R&D for process technology and manufacturing capacity for most of their products.

In the subsystems business area, we design, develop, manufacture and market subsystems and modules for the telecommunications, 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 consolidated net revenues and consolidated operating income by semiconductor product group segment. For the computation of the segments' internal financial measurements, we use certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative expenses and a significant part of R&D expenses. Additionally, in compliance with our internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, start-up costs of new manufacturing facilities, some strategic and special R&D programs or other corporate-sponsored initiatives, including certain corporate level operating expenses, acquired IP R&D, other non-recurrent purchase accounting items and certain other miscellaneous charges.

	(unaudited) Three Months Ended			
	March 28, 2009		March 30, 2008	
	(in millions)			
Net revenues by product segments:				
Automotive Consumer Computer and Communication Infrastructure Product Groups (ACCI)	$	627	$	1,045
Industrial and Multi-segment Products Sector (IMS)		499		772
Wireless		518		348
Others(1)		16		14
Flash Memories Group (FMG)		-		299
Total consolidated net revenues	$	1,660	$	2,478

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

	(unaudited) Three Months Ended			
	March 28, 2009		March 30, 2008	
	(in millions)			
Net revenues by product lines:				
Home Entertainment & Displays (“HED”)	$	180	$	250
Automotive Products Group (“APG”)		190		383
Computer and Communication Infrastructure (“CCI”)		168		284
Imaging (“IMG”)		89		121
Others		-		7
Automotive Consumer Computer and Communication Infrastructure Product Groups (“ACCI”)		627		1,045
Analog Power and Micro-Electro-Mechanical Systems (“APM”)		351		562
Microcontrollers, non-Flash, non-volatile Memory and Smartcard products (“MMS”)		148		210
Industrial and Multisegment Products Sector (“IMS”)		499		772
Wireless Multi Media (“WMM”)		247		296
Connectivity & Peripherals (“C&P”)		97		52
Cellular Systems (“CS”) (1)		130		-
Ericsson Mobile Platforms (“EMP”)		44		-
Wireless		518		348
Others		16		14
Flash Memories Group (“FMG”)		-		299
Total consolidated net revenues	$	1,660	$	2,478

(1) Cellular Systems includes the largest part of the revenues contributed by NXP Wireless and, as such, there are no comparable numbers available for the first quarter of 2008. Connectivity & Peripherals also partly benefited from the NXP wireless contribution.

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		(unaudited) Three Months Ended	
		March 28, 2009	March 30, 2008
		(in millions)	
Operating income (loss) by product segments (1):			
Automotive Consumer Computer and Communication Infrastructure Product Groups (ACCI)	$	(89)	$ 17
Industrial and Multisegment Products Sector (IMS)		(32)	90
Wireless		(139)	(10)
Others(2)		(133)	(201)
Flash Memories Group (FMG)		-	16
Total consolidated operating income (loss)	$	(393)	$ (88)

(1) Operating income (loss) of product segments included $130 million unused capacity charges as at March 28, 2009.
(2) Operating income (loss) of "Others" includes items such as impairment, restructuring charges and other related closure costs, start-up costs, and other unallocated expenses such as: strategic or special research and development programs, acquired In-Process R&D and other non-recurrent purchase accounting items, certain corporate level operating expenses, certain patent claims and litigation, and other costs that are not allocated to the product segments, as well as operating earnings or losses of the Subsystems and Other Products Group. Unused capacity charges not allocated to product segments amounted to $9 million as at March 28, 2009.

	(unaudited) Three Months Ended	
	March 28, 2009	March 30, 2008
	(as percentages of net revenues)	
Operating income (loss) by product segments:		
Automotive Consumer Computer and Communication Infrastructure Product Groups (ACCI) (1)	(14.2)%	1.6%
Industrial and Multi-segment Products Sector (IMS) (1)	(6.4)	11.7
Wireless (1)	(26.8)	(2.9)
Others(2)	—	—
Flash Memories Group (FMG) (1)	—	5.4%
Total consolidated operating income (loss)(3)	(23.7)%	(3.6)%

(1) As a percentage of net revenues per product group.
(2) As a percentage of total net revenues. Includes operating income (loss) from sales of subsystems and other income (costs) not allocated to product segments.
(3) As a percentage of total net revenues.

	(unaudited) Three Months Ended March 28, 2009	(unaudited) Three Months Ended March 30, 2008
	(in millions)	
Reconciliation to consolidated operating income (loss):		
Total operating income (loss) of product segments	$ (260)	$ 113
Strategic and other research and development programs	(5)	(1)
Acquired In-Process R&D	-	(21)
Start-up costs	(21)	(7)
Impairment, restructuring charges and other related closure costs	(56)	(183)
Unused capacity charges	(9)	-
Tools write-off	(16)	-
Consulting fees	(7)	-
Other non-allocated provisions(1)	(19)	11
Total operating loss Others	(133)	(201)
Total consolidated operating income (loss)	$ (393)	$ (88)

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(1) Includes unallocated income and expenses such as certain corporate level operating expenses and other costs that are not allocated to the product segments.

Net revenues by location of order shipment and by market segment

The table below sets forth information on our net revenues by location of order shipment:

	(unaudited) Three Months Ended March 28, 2009		(unaudited) Three Months Ended March 30, 2008	
	(in millions)			
Net Revenues by Location of Order Shipment(1)(2)				
EMEA	$	539	$	787
North America		197		344
Asia Pacific		478		595
Greater China		361		628
Japan		85		124
Total	$	1,660	$	2,478

(1) Net revenues by location of order shipment are classified by location of customer