STMICROELECTRONICS NV
Form 6-K
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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 5, 2011

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 Second Quarter and First Half 2011:

- 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 and six months ended July 2, 2011; 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.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Balance Sheets, Statements of Cash Flow and Statements of Changes in Equity for the three months and six months ended July 2, 2011 and Notes thereto included elsewhere in this Form 6-K, and our annual report on Form 20-F for the year ended December 31, 2010 as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC") on March 7, 2011 (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 July 2, 2011 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 2011.
- Results of Operations, containing a sequential and year-over-year analysis of our financial results for the three months and six months ended July 2, 2011 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 selling price for deliverables in multiple element sale arrangements;
- inventory reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory;
- provisions for litigation and claims;
- valuation at fair value of acquired assets including intangibles, goodwill, investments and tangible assets, and assumed liabilities in a business combination, as well as the impairment of their related carrying values;
- 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;
- determination of fair value on nonmonetary exchanges of assets;
- measurement of the fair value of debt and equity securities, for which no observable market price is obtainable;
- assessment of credit losses and other-than-temporary impairment charges on financial assets;
- valuation of noncontrolling interest and repurchase of remaining interest on certain investments;
- restructuring charges;
- assumptions used in calculating pension obligations; and
- determination of the amount of taxes estimated for the full year, including deferred income tax assets and valuation allowances, and 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 Wireless, our accounting relies on estimates based on the business plan of ST-Ericsson, as submitted by ST-Ericsson's CEO to ST-Ericsson's Board of Directors.

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 combined 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.

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. 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' financial condition periodically and record a provision for any specific account that we consider doubtful. In the first half of 2011, 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 based on verifiable 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. 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 July 2, 2011, the value of goodwill amounted to $1,079 million.

Impairment of goodwill. Goodwill recognized in business combinations is not amortized but is tested for impairment at least 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. Our reporting unit “Wireless” includes ST-Ericsson JVS, which is consolidated in our accounts. 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 a market approach with financial metrics of comparable public companies and estimate 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 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.

We considered the material decline in our Wireless revenues and increased level of losses as a triggering event to perform additional impairment tests during the first and second quarters of 2011. On the basis of the estimates and assumptions set forth in the latest business plan provided by ST-Ericsson, we did not record any goodwill impairment charge in the first half of 2011. However, many of the factors used in the business plan to assess fair values are outside our control as ST-Ericsson is a joint venture between Ericsson and us. The estimates used in such analyses are also subject to change. 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, this could result in future non-cash impairment charges against earnings, as a result of a requirement to revalue our investment in ST-Ericsson. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or 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.

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

Date of most recent impairment test	Reporting Unit	% estimated fair value exceeds carrying value
Q3 2010	HED	347
Q3 2010	MMS	738
Q2 2011	Wireless	81

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. 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 carrying amount over the fair value. We normally estimate the fair value using a market approach with financial metrics of comparable public companies and estimate the expected 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.

Our evaluations are based on financial plans, including the plan we receive from ST-Ericsson, 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 charges on certain intangible assets.

We considered the material decline in our Wireless revenues and increased level of losses as a triggering event to perform additional impairment tests during the first and second quarters of 2011. On the basis of the estimates and assumptions set forth in the latest business plan provided by ST-Ericsson, we did not record any intangible assets impairment charge in the first half of 2011. However, many of the factors used in the business plan to assess fair values are outside our control as ST-Ericsson is a joint venture between Ericsson and us. The estimates used in such analyses are also subject to change. 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, this could result in future non-cash impairment charges against earnings, as a result of a requirement to revalue our investment in ST-Ericsson. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or 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 July 2, 2011, the value of intangible assets subject to amortization amounted to $715 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 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 newly acquired equipment when it is placed into service.

We evaluate each period whether 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. 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 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-off 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 2011, the net amount of restructuring charges and other related closure costs amounted to $31 million before taxes.

Share-based compensation. We measure our share-based compensation expense based on the fair value of the award as at 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. As a result, in relation to our nonvested Stock Award Plan, we recorded a total pre-tax expense of $8 million in the second quarter of 2011.

Earnings (loss) on Equity 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. In the second quarter of 2011, we recognized a loss of approximately $6 million related to the ST-Ericsson JVD, net of amortization of basis differences, and $3 million loss related to other investments. 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.

Available-for-sale and held-for-trading 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 provide for those that could not be sustained upon examination by the taxing authorities.

We are also required to assess the likelihood of recovery of our deferred tax assets and are partially dependent on ST-Ericsson management's assessment with respect to the deferred tax assets at ST-Ericsson, which were approximately $150 million as of July 2, 2011. This assessment requires the exercise of judgment with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. 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. 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. Our deferred tax assets have increased substantially in the period 2007-2009 in light of our net losses, while they decreased in 2010 due to improved performances resulting in net income. As of July 2, 2011, we recorded in our accounts certain valuation allowances based on our current operating assumptions. However, 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 shareholders' 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. 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 favorable tax strategies. In connection with the continuing losses of ST-Ericsson, in the second quarter of 2011, we performed an assessment of the future recoverability of the deferred tax assets resulting from past net operating losses. On the basis of the most updated ST-Ericsson business plans and its tax planning strategies, no valuation allowance with respect to the ST-Ericsson deferred tax assets was recorded at July 2, 2011. 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 currently under evaluation; 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.

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. From time to time we face cases where contingent liability 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 several legal proceedings concerning such issues. See "Legal Proceedings".

As of July 2, 2011, based on our assessment, we did not record any material provisions in our financial statements relating to third-party claims, and in particular third party claims that relate to patent rights, since we had not identified any significant risk of probable loss that is likely to arise out of such asserted claims or ongoing legal proceedings. There can be no assurance, however, that all such claims 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.

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 July 2, 2011, our pension and long-term benefit obligations net of plan assets amounted to $351 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 exposures 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. 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. For further details of our legal proceedings refer to "Legal Proceedings" and Note 25 to our Unaudited Interim Consolidated Financial Statements.

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 2011 ended on April 2 and July 2, 2011, respectively. The third quarter of 2011 will end on October 1 and the fourth quarter will end on December 31, 2011. 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.

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"), DRAMs, optoelectronics devices and Flash Memory).

The semiconductor industry in the second quarter of 2011 continued to experience a growth on a year-over-year basis, in particular for the SAM.

Based on published industry data by WSTS, semiconductor industry revenues remained basically flat in the second quarter of 2011 on a year-over-year basis for the TAM, while they increased by about 2% for the SAM to reach approximately $74 billion and $43 billion, respectively. Sequentially, in the second quarter of 2011 the TAM and the SAM decreased both by approximately 2%.

Our effective average exchange rate for the first half of 2011 was $1.35 for €1.00 compared to $1.37 for €1.00 for the first half of 2010. Our effective exchange rate for the second quarter of 2011 was $1.37 for €1.00 compared to $1.33 for €1.00 for the first quarter of 2011 and $1.35 for €1.00 in the second quarter of 2010. 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.

With reference to our revenues performance, we registered a slight increase on both a year-over-year and sequential basis. Our second quarter 2011 revenues amounted to $2,567 million, increasing by 1.4% on a year ago basis and 1.3% sequentially. The sequential performance was substantially at the midpoint of the guidance range released to the market, which indicated a range of a sequential variation between -2% and +5%. The year-over-year revenues increase was driven by a strong performance of our Automotive and Imaging product lines within our ACCI product segment and of our MEMS and Microcontrollers within our AMM product segment, while Wireless revenues declined significantly. Compared to the served market, our performance was above sequentially and below on a year-over-year basis, mainly reflecting the anticipated significant decline in Wireless and largely caused by the weaker demand from ST-Ericsson's largest customer.

Net revenues were up both sequentially and year-over-year due to solid performance of our wholly owned businesses (including ACCI, AMM, PDP and others, but excluding Wireless, mainly run through ST-Ericsson), which were up 3.2% sequentially and 10.6% on a year-over-year basis, while Wireless was down 9.7% sequentially and 33.9% year-over-year.

Our second quarter 2011 gross margin reached 38.1% of revenues, decreasing by 20 basis points compared to the prior year period, mainly due to the negative price impact, almost entirely balanced by the benefit from improvement in manufacturing performances. On a sequential basis, our gross margin decreased by 100 basis points, in line with our guidance, which indicated a gross margin of 38.7% plus or minus one percentage point.

Our total operating expenses, combining the selling, general and administrative ("SG&A") and research and development ("R&D") expenses in the second quarter of 2011, were basically flat compared to the second quarter of 2010.

Our operating results slightly deteriorated on a year-over-year basis, mainly due to a higher level of impairment, restructuring charges and other related closure costs.

In summary, our financial performance during the second quarter of 2011 was characterized by the following:

- our consolidated operating income decreased slightly on a year-over-year basis, mainly due to higher charges for restructuring provisions also linked to the new cost saving plan of ST-Ericsson, while manufacturing performances significantly improved, though balanced by negative pricing trend and the weakening U.S. dollar exchange rate; on a sequential basis our operating income deteriorated mainly due to the weakening U.S. dollar exchange rate;

- operating income of our wholly owned businesses was up to 14.4% in the second quarter of 2011 from 12.0% in the equivalent year-ago period, while substantially stable on a sequential basis; Wireless operating loss significantly deteriorated to $207 million from $180 million sequentially and $137 million in the year-ago period.

The net income in the second quarter 2011 largely benefited from a cash settlement with Credit Suisse of all outstanding litigation concerning Auction Rate Securities, which resulted in recording a $329 million benefit before taxes, out of which $6 million was a reimbursement of legal fees which was included in the SG&A and $323 million as a gain on financial assets. See "Legal Proceedings". As a result, the net income in the second quarter of 2011 significantly increased to $420 million, benefiting from a $305 million gain net of taxes on financial assets. Our second quarter net revenues and gross margin results were substantially in line with our business outlook, with sales growth driven by a solid performance from Automotive.

As anticipated, in this quarter we experienced headwinds related to the situation in Japan and currency rates, while continuing to face ST-Ericsson's ongoing transition. Additionally, in June, we saw weaker demand and a much weaker than planned outlook from a major wireless customer and we saw signs of softening demand in some of our businesses, such as digital consumer products and microcontrollers.

Looking at the 2011 first half, we have made measurable progress in advancing our product portfolio, clearly gaining share as net revenues from our wholly owned businesses increased 17% compared to the year-ago period. Our product portfolio is gaining further traction, with significant design wins in the growth application areas we are targeting: energy management and savings, trust and data security, healthcare and wellness as well as smart consumer devices.

Business Outlook

Entering the third quarter, we have moved quickly to lower production levels at certain fabs primarily due to the significant reduction in the demand outlook from a major customer compared to previous expectations.

Overall, we are anticipating net revenues in the third quarter to evolve sequentially in the range of -5% to +2%. Gross margin in the third quarter, due to the temporary high level of unsaturation at selected facilities, is expected to be about 35.5%, plus or minus one percentage point.

Our net financial position, at approximately $1.1 billion at quarter end, continues to be strong. We expect our capital expenditures in the second half to decline significantly as we have largely completed the selected capacity additions for the year. We continue to strengthen our product portfolio and remain committed to support, as well as diversify, our customer base in order to improve our performance.

This Outlook is based on an assumed effective currency exchange rate of approximately $1.41 = €1.00 for the 2011 third quarter and includes the impact of existing hedging contracts. The third quarter will close on October 1, 2011.

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 2011

On March 15, 2011 we announced new appointments to our executive management team. Fabio Gualandris rejoined us as Corporate Vice President, Director Product Quality Excellence, reporting directly to our Chief Executive Officer Carlo Bozotti. Gualandris took the position previously held by Georges Auguste, who has been appointed Executive Vice President, Packaging & Test Manufacturing (PTM), reporting to Didier Lamouche, our Chief Operating Officer. Claudia Levo joined us to take up the position of Corporate Vice President, Communication, reporting to Carlo Ferro, our Chief Financial Officer. In addition to the new appointments, we also announced a dedicated organization to investigate new areas of potential strategic interest for our Company, including possible investments in start-up companies that develop emerging technologies, products and services related to our business goals. Loic Lietar, Executive Vice President, New Ventures, will manage this new activity. Philippe Lambinet has taken responsibility for the strategic functions formerly managed by Lietar, including Strategic Planning and Corporate Business Development. Lambinet will manage these activities in addition to his current role as Senior Executive Vice President and General Manager Home Entertainment & Displays Group, a position he has held since 2007.

On March 30, 2011 the French Fond Stratégique d’Investissement (FSI) announced that it had completed the acquisition of Areva’s indirect interest in our Company, with an indirect stake of 10.9% in our Company. FSI thus substitutes and succeeds Areva as a party to the shareholders’ agreement relating to ST Holding NV. In addition, FSI and the Italian Ministry of Economy and Finance have agreed in principle to extend the balance period provided for in the shareholders’ agreement, from March 17, 2011 to December 31, 2011.

Our Annual General Meeting of Shareholders was held on May 3, 2011 in Amsterdam and the following decisions were approved by our shareholders:

- The reappointment of Mr. Carlo Bozotti as the sole member of the Managing Board and our President and Chief Executive Officer for a three-year term expiring at the 2014 Annual General Meeting;