STMICROELECTRONICS NV
Form 6-K
May 06, 2014

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 6, 2014

Commission File Number: 1-13546

STMicroelectronics N.V.
(Name of Registrant)

WTC Schiphol Airport
Schiphol Boulevard 265
1118 BH Schiphol Airport
The Netherlands
(Address of Principal Executive Offices)

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

Form 20-F Q Form 40-F £

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 2014:

- Operating and Financial Review and Prospects;

- Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, and Statements of Equity and related Notes for the three months ended March 29, 2014; and

- Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flows and Statements of Equity for the three months ended March 29, 2014 and Notes thereto included elsewhere in this Form 6-K, and our annual report on Form 20-F for the year ended December 31, 2013 as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC") on March 5, 2014 (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 "Business Overview" and "Liquidity and Capital Resources—Financial Outlook: Capital Investment". 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 unaudited interim consolidated financial statements ("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.
- Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months ended March 29, 2014 designed to provide context for the other sections of the MD&A, including our expectations for selected financial items for the second quarter of 2014.
- Other Developments in the First Quarter 2014.
- Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months ended March 29, 2014, as well as segment information.
- Legal Proceedings.
- 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.
- Impact of Recently Issued U.S. Accounting Standards.
- 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

There were no material changes in the first three months of 2014 to the information provided under the heading "Critical Accounting Policies Using Significant Estimates" included in our annual report on Form 20-F for the fiscal year ended December 31, 2013.

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 2014 ended on March 29, 2014. The second quarter and third quarter of 2014 will end on June 28 and September 27, respectively. The fourth quarter of 2014 will end on December 31, 2014. 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. There were 88 days in the first quarter of 2014 compared to 89 days in the first quarter of 2013 and 94 days in the fourth quarter of 2013.

Business Overview

Our results of operations for each period were as follows:

	Three Months Ended			% Variation	
	March 29, 2014	Dec 31, 2013	March 30, 2013	Sequential	Year-Over-Year
	(Unaudited, in millions, except per share amounts)				
Net revenues	$1,825	$2,015	$2,009	(9.4)%	(9.2)%
Gross profit	599	662	628	(9.6)%	(4.7)%
Gross margin as percentage of net revenues.	32.8%	32.9%	31.3%	-	-
Operating loss	(4)	(11)	(281)	62.3%	98.5%
Net loss attributable to parent company	(24)	(36)	(171)	32.3%	85.9%
Earnings per share	(0.03)	(0.04)	(0.19)	-	-

The total available market is defined as the "TAM", while the serviceable available market, the "SAM", is defined as the market for products produced by us (which consists of the TAM and excludes major devices such as Microprocessors ("MPUs"), DRAMs, optoelectronics devices, Flash Memories and the Wireless Application Specific market (Broadband and Application Processor)).

Based on the most recently published estimates by WSTS, semiconductor industry revenues increased in the first quarter of 2014 on a year-over-year basis by approximately 11% for the TAM and 9% for the SAM to reach approximately $79 billion and $36 billion, respectively. Sequentially, in the first quarter of 2014, the TAM decreased by approximately 2% while the SAM was basically flat.

In the first quarter, the combination of a positive macro-economic environment and our leading-edge product portfolio helped to drive higher year-over-year revenues in microcontrollers, automotive, industrial and power, as well as in the Distribution channel. Our general-purpose microcontroller business enjoyed the fourth consecutive quarter of record revenues, and today, based on the IHS iSuppli CLT report published in March 2014, ST is the second largest player worldwide in both general-purpose and secure microcontrollers.

First quarter 2014 revenues amounted to $1,825 million, a 9.2% decrease on a year-over-year basis. Sense & Power and Automotive Products (SP&A) segment revenues increased by about 6% primarily due to growth in Automotive and Industrial & Power Discrete. Embedded Processing Solutions (EPS) segment revenues decreased by approximately 28% mainly due to the phasing-out of the legacy ST-Ericsson products and weak performance in Digital Convergence Group product line, only partially offset by solid growth in microcontrollers. Excluding legacy ST-Ericsson products, our revenues increased by 0.7%. Sequentially, we registered a 9.4% decrease, which was in line with the 9.5% decrease at the mid-point of our guidance. Compared to the served market, our performance was below the SAM both on a year-over-year and sequential basis. For a detailed description of our segments, see "Results of Operations—Segment Information" below.

Our effective average exchange rate for the first quarter of 2014 was $1.35 for €1.00 compared to $1.31 for €1.00 for the first quarter of 2013 and $1.34 for €1.00 in the fourth quarter of 2013. 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 first quarter 2014 gross margin was 32.8% of revenues, compared to the 32.4% mid-point of our guidance, and decreasing sequentially by 10 basis points, reflecting decreasing selling prices and manufacturing inefficiencies, partially offset by a more favorable product mix and the positive impact of licensing revenues. On a year-over-year comparison, our first quarter 2014 gross margin improved by 150 basis points, mainly due to improved manufacturing efficiencies, higher licensing revenues, lower unused capacity charges and a more favorable product mix, partially offset by the negative impact of selling prices.

Our combined selling, general and administrative (SG&A) and research and development (R&D) costs amounted to $606 million, decreasing by about 25% compared to $812 million in the prior-year quarter mainly due to the ST-Ericsson exit and ongoing cost reduction initiatives. On a sequential basis, operating expenses decreased by about 8% compared to $656 million in the prior quarter, benefiting from our cost savings initiatives and a shorter calendar.

First quarter other income & expenses, net, registered income of $15 million mainly benefiting from the sale of business totaling $13 million and $21 million of R&D grants. These R&D grants do not include the Nano2017 R&D grants, pending European Union approval now expected in the second quarter 2014.

Impairment and restructuring charges significantly decreased to $12 million from $101 million in the prior-year quarter which had been primarily impacted by $86 million impairment and restructuring charges related to ST-Ericsson restructuring plans.

Our operating losses were $4 million in the first quarter of 2014 improving from a loss of $281 million in the first quarter of 2013 and a loss of $11 million in the fourth quarter of 2013. The improvement in our operating losses compared to the prior-year quarter was mainly due to the savings in our operating expenses and lower amounts of impairment and restructuring charges. Our strong and growing product momentum in our Sense & Power and Automotive segment translated into an operating margin improvement of 360 basis points in this segment compared to the year-ago quarter. In our Digital Convergence business, we made progress in building the pipeline to sustain its future turnaround; design-win momentum for our latest ARM-based client and server portfolio for HEVC and ultra-HD set-top-box continued during the quarter, as well as for our FD-SOI based IC solutions.

We are encouraged by the signs of improvement in the macro-economic environment generally and by specific product dynamics expected in the next several quarters. In the second quarter, we see opportunities to continue to expand our customer base, driven by strength in microcontrollers, automotive and industrial and power applications and by the initial recovery in revenues of the Embedded Processing Solutions segment.

In the second quarter, we expect overall revenues to increase sequentially by about 2% at the mid-point. As anticipated, legacy ST-Ericsson products are winding down and revenues are expected to be less than half of the $63 million recorded in the first quarter. Gross margin in the second quarter is expected to be about 33.6%, plus or minus 2.0 percentage points.

In addition, we see opportunities to further advance ST's leadership in key embedded processing solutions and technologies with the approval of the Nano2017 R&D program expected this quarter.

This outlook is based on an assumed effective currency exchange rate of approximately $1.36 = €1.00 for the 2014 second quarter and includes the impact of existing hedging contracts. The second quarter will close on June 28, 2014.

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

On April 28, 2014, we announced the appointment of Mr. Jean-Marc Chery as Chief Operating Officer. In this new role, Mr. Jean-Marc Chery will continue to hold overall responsibility for Embedded Processing Solutions, for which he serves as Executive Vice President and General Manager, as well as for central manufacturing operations including Packaging and Test Manufacturing. He will also continue in his role of Vice Chairman of our Corporate Strategic Committee and will continue to report to Carlo Bozotti, President and Chief Executive Officer.

On April 28, 2014, we announced the main resolutions to be submitted for shareholder adoption at our Annual General Meeting of Shareholders which will be held in Amsterdam, The Netherlands, on June 13, 2014. The main resolutions, proposed by the Supervisory Board, include:

- The distribution of a cash dividend of US$0.10 in the second quarter of 2014, and of US$0.10 in the third quarter of 2014, per common share, to be paid in June and September of 2014, respectively, to shareholders of record in the month of each quarterly payment. The amount of the proposed second and third quarter of 2014 cash dividend is stable with respect to previous quarterly dividend distributions;

- The reappointment of Mr. Carlo Bozotti as the sole member of the Managing Board and the Company's President and Chief Executive Officer for a three-year term, expiring at the 2017 Annual General Meeting;

- The reappointment for a three-year term, expiring at the 2017 Annual General Meeting, of the following members of the Supervisory Board: Messrs. Didier Lombard, Jean d'Arthuys, Jean-Georges Malcor and Alessandro Rivera;

- The appointment as new members of the Supervisory Board, for a three-year term expiring at the 2017 Annual General Meeting, of: Ms. Heleen Kersten and Mr. Maurizio Tamagnini in replacement of Mr. Tom de Waard and Mr. Bruno Steve, whose terms will expire;

- The adoption of our 2013 Statutory Annual Accounts prepared in accordance with International Financial Reporting Standards. The Statutory Annual Accounts for the year ended December 31, 2013, are posted on the Company's website and were filed with the Netherlands Authority for the Financial Markets (AFM) on April 28, 2014; and

- The appointment of PricewaterhouseCoopers Accountants N.V.as our external auditor for the 2014 and 2015 financial years.

On April 30, 2014, we announced the appointment of Mr. Paul Grimme as Executive Vice President, Mass Market and Online Marketing Programs, a new position created to coordinate the sales & marketing activities in this strategic and growing area for the company. He will continue to report to Carlo Bozotti, President and Chief Executive Officer. Mr. Paul Cihak takes over from Mr. Paul Grimme as Executive Vice President and General Manager, Sales & Marketing, Europe, Middle East and Africa. Mr. Bob Krysiak, Executive Vice President and President for the Americas Region, joins the Corporate Strategic Committee replacing Mr. Paul Grimme in his role.

In April 2014, we signed a strategic agreement with a top-tier foundry for 28-nm FD-SOI technology. This agreement expands the ecosystem and assures the industry of high-volume production of our FD-SOI based IC solutions. Our unique FD-SOI technology is well on its way to becoming a significant revenue generator for 2015 and beyond and strengthens the business and financial prospects of our EPS segment. This agreement includes certain commitments from both parties, out of which we committed to purchase a number of FD-SOI wafers after the qualification of the technology under terms to be defined between parties.

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In the first quarter of 2014, we obtained a favorable ruling in Switzerland on the transfer of the majority of ST-Ericsson deductible operating losses. In addition, ST-Ericsson JVS entered into liquidation on April 15, 2014.

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, which include the production and sale of both silicon chips and Smartcards.

In 2014, our segments are as follows:

- Sense & Power and Automotive Products (SP&A), including the following product lines:
  - Automotive (APG);
  - Industrial & Power Discrete (IPD);
  - Analog & MEMS (AMS); and
  - Other SP&A;
- Embedded Processing Solutions (EPS), comprised of the following product lines:
  - Digital Convergence Group (DCG);
  - Imaging, BI-CMOS ASIC and Silicon Photonics (IBP);
  - Microcontroller, Memory & Secure MCU (MMS); and
  - Other EPS.

In 2014, we revised our revenues by product line from prior periods following the reclassification of Image Signal Processor business (about $11 million in revenues in the first quarter of 2014) from IBP product line to DCG product line. In addition, the Wireless former product line has been reclassified into the DCG product line. We believe that the revised 2013 revenues presentation is consistent with that of 2014 and we use these comparatives when managing our company.

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 business area does not meet the requirements for a reportable segment as defined in the guidance on disclosures about segments of an enterprise and related information. All the financial values related to

Subsystems including net revenues and related costs, are reported in the segment “Others”.

The following tables present our consolidated net revenues and consolidated operating income (loss) by product 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 (“SG&A”) expenses and a part of research and development (“R&D”) expenses. In compliance with our internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items, strategic and special R&D programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the product segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold.

	Three Months Ended	
	March 29, 2014	March 30, 2013
	(Unaudited, in millions)	
Net revenues by product line and product segment:		
Automotive (APG)	$445	$385
Industrial & Power Discrete (IPD)	442	429
Analog & MEMS (AMS)	304	313
Sense & Power and Automotive Products (SP&A)	1,191	1,127
Digital Convergence Group (DCG)	205	496
Imaging, BI-CMOS ASIC and Silicon Photonics (IBP)	77	72
Microcontroller, Memory & Secure MCU (MMS)	346	299
Embedded Processing Solutions (EPS)	628	867
Others(1)	6	15
Total consolidated net revenues	$1,825	$2,009

(1) In the first quarter of 2014, "Others" includes revenues from the sales of Subsystems ($2 million) and sales of materials and other products not allocated to product segments ($4 million).

Three Months Ended

March 29, 2014