

STMICROELECTRONICS NV  
Form 6-K  
August 04, 2009

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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 4, 2009

Commission File Number: 1-13546

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STMicroelectronics N.V.  
(Name of Registrant)

39, Chemin du Champ-des-Filles  
1228 Plan-les-Ouates, Geneva, Switzerland  
(Address of Principal Executive Offices)

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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  E

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  E

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  E

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  E

No  Q

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

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Enclosure: STMicroelectronics N.V.'s Second Quarter and First Half 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 and six months ended June 27, 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.
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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 June 27, 2009 and Notes thereto included elsewhere in this Form 6-K, and 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; determination of fair value of deliverables in multiple element sale arrangements, 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 credit losses and 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 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)

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 half 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 June 27, 2009, the value of goodwill amounted to \$1,108 million. Of such amount, \$161 million was recognized during the first half 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. In addition to our yearly campaign, as our market capitalization declined to a level below our book value, we performed analyses during the fourth quarter of 2008 and the first half of 2009 using the most current long term financial plan available. We recorded \$6 million impairment charges on goodwill during the period. 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 from 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 and rely on external inputs and market participant's assumptions. 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.

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We normally estimate the fair value based on the projected discounted future cash flows associated with the intangible assets and rely on external inputs and market participant's assumptions. 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 June 27, 2009, the value of intangible assets subject to amortization amounted to \$878 million, of which \$43 million was related to the ST-Ericsson joint venture consolidated in the first quarter of 2009 and \$548 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. In the first half of 2009, \$25 million of impairment charges were recorded on long-lived assets of our manufacturing sites in Carrollton, Texas and in Phoenix, Arizona, of which \$18 million were recorded in the second quarter of 2009.

- 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 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 \$1,116 million to the joint venture (net of transaction costs for \$13 million), 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, \$50 million liabilities net of other current assets, \$161 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 half of 2009, the net amount of restructuring charges and other related closure costs amounted to \$111 million before taxes.
- **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 \$21 million in the first half of 2009, out of which \$4 million was related to the 2006 plan; \$11 million to the 2007 plan; \$5 million to the 2008 plan and \$1 million to the 2009 plan.

- 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. As a result, in the first half of 2009, we recognized approximately \$66 million as our proportional interest in the loss recorded by Numonyx in the fourth quarter of 2008 and the first quarter of 2009, based on our 48.6% ownership interest in Numonyx, net of amortization of basis differences. \$37 million was recorded in the second quarter of 2009. 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. On the basis of the improved market conditions, we did not book any impairment charge in the second quarter of 2009. In addition, we recognized in the first half of 2009, \$15 million related to the ST-Ericsson entities consolidated under the equity method, which included the amortization of basis differences. \$11 million was recorded in the second quarter of 2009.

- Financial assets. We classify our financial assets in the following categories: held-for-trading financial assets and available-for-sale financial assets. At June 27, 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. Pending the execution of the favorable arbitration award against Credit Suisse by FINRA, the Auction Rate Securities that were purchased without our authorization by Credit Suisse, 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 \$72 million on the value of the Auction Rate Securities in the first half of 2009 that was considered as other than temporary, of which \$13 million was recorded in the second quarter of 2009.

- 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.

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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. Our deferred tax assets have increased substantially over the past year in light of our negative operating results and restructuring charges. As of June 27, 2009, we believed that all of the deferred tax assets, net of valuation allowances, as recorded on our consolidated balance sheet, would ultimately be recoverable based on our current operating assumptions. However, should our operating assumptions change we may be impaired in our ability to fully recover our deferred tax assets in the future. Likewise, a change in the tax rates applicable in the various jurisdictions could have an impact on our future tax provisions 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 June 27, 2009, based on our assessment, we did not record any provisions in our financial statements relating to third party intellectual property right claims 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 these 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 operation and our ability to compete.

- 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 June 27, 2009, our pension obligations amounted to \$336 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 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 ended 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 half of 2009, the semiconductor industry continued to be negatively impacted by the difficult conditions in the global economy which caused the TAM and the SAM to register double-digit decline. Based on most recently published estimates, in the first half of 2009 semiconductor industry revenues declined on a year-over-year basis by approximately 25% for both the TAM and the SAM to reach approximately \$96 billion and \$59 billion, respectively. However, during the second quarter of 2009, the industry experienced sequentially a solid recovery with a growth rate of approximately 18% and 14% for the TAM and the SAM 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.

In the first half 2009, our revenues as reported were \$3,653 million or a 25.0% decline compared to the equivalent prior year period, in line with the market thanks to the contribution of the recently acquired wireless businesses.

Our revenues as reported in the second quarter of 2009 were \$1,993 million, a decline of 16.6% over the same period in 2008, driven by significant weakness in customer demand across most geographic regions. This trend reflected double-digit declines in all main market applications, partially balanced by the contribution of the acquired wireless businesses. The second quarter of 2009 also benefited from \$18 million in other revenues recognized upon signature of a contract for the licensing of a CMOS technology.

On a sequential basis, second quarter 2009 revenues increased 20.1%, with almost all market segments registering improved customer demand and a higher level of units sold. This sequential performance was largely driven by a strong market recovery in the Greater China and Asia Pacific regions.

In the first half 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 \$1.51 for €1.00 in the first half of 2008. In the second quarter of 2009 our effective exchange rate was \$1.34, while in the first quarter of 2009 and in the second quarter of 2008 our effective exchange rate was \$1.33 and \$1.55, respectively, for €1.00. 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 half of 2009 dropped by 10.3 percentage points on a year-over-year basis to 26.2%, mainly due to lower sales volumes and the pressure on average selling prices, both related to the deteriorating economic conditions. Furthermore, our gross margin for the first half of 2009 was impacted approximately by 7 percentage points by the underutilization charges associated with the substantially reduced activity of our fabs in response to falling demand and with the objective to cut our inventories level in order to protect our cash resources. The negative impact of such charges and of manufacturing inefficiencies was partially offset by the more favorable U.S. dollar exchange rate, and the contribution of an improved product portfolio mix following the wireless businesses acquisition. The gross profit and the gross margin also benefited from the licensing of the CMOS technology.

On a year-over-year basis, our second quarter gross margin experienced a similar trend, decreasing from 36.8% to 26.1% which was the result of the negative impact of substantially lower sales volumes and the aforementioned unused capacity charges partially offset by the favorable contribution of the improved product mix, the favorable currency impact and the consolidation of the EMP business as of February 3, 2009. Sequentially, it remained flat.

Our operating expenses, comprising selling, general and administrative expenses, as well as R&D expenses, increased in the first half of 2009 compared to the first half of 2008 despite the significant favorable currency impact due primarily to the increased R&D activities consolidated with the recent wireless acquisitions. Our R&D expenses in the first half of 2009 were net of \$77 million of tax credits associated with our ongoing programs, compared to \$73 million in the first half of 2008.

In the first half 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. This resulted in impairment and restructuring charges of approximately \$142 million. In the first half of 2008, these charges amounted to \$369 million including a \$189 million loss relating to the FMG asset disposal.

Our “Other income and expenses, net” improved significantly in the first half of 2009, supported by the additional funds granted to our R&D programs through new contracts signed with the French Administration covering the period 2008 through 2012, which allowed us to recognize approximately \$114 million of income. As a result of this additional funding, “Other income and expenses, net” resulted in income of \$98 million compared to income of \$39 million in the equivalent period in the first half of 2008.

Our as reported operating result in the first half of 2009 was a loss of \$821 million compared to a loss of \$114 million in the first half of 2008. As indicated above, our operating loss was largely and negatively impacted by the material drop in our revenues and by the unused capacity charges, which were largely exceeding the benefits of a strengthening dollar exchange rate.

The valuation of the fair value of the 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 \$72 million in the first half 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 interest, attorneys’ fees and authorized us to retain interest of approximately \$27, out of which \$25 million has already been paid. We have petitioned 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. Upon receipt of the payment we will transfer ownership of the unauthorized Auction Rate Securities to Credit Suisse and reverse impairment charges posted to date. 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 \$40 million as at June 28, 2008 to \$2 million as at June 27, 2009 as a consequence of less interest income received on our financial resources due to significantly lower U.S. dollar and

Euro denominated interest rates compared to the first half of 2008.

In the first half of 2009, we registered a \$281 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 \$66 million net share of Numonyx's equity loss related to its fourth

quarter of 2008 and first quarter of 2009 equity loss. We also recorded our share in the result of JVD for an amount of \$15 million.

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

- drop in demand as a result of the global economic downturn;
- negative pricing trend;
- impairment and equity loss recorded in relation to our equity investments;
- manufacturing inefficiencies arising from under utilization of our fabs;
- additional impairment and other restructuring charges related to our ongoing programs;
- expenses from the acquired wireless businesses; and
- other-than-temporary loss on financial assets.

The factors above were partially offset by the following elements:

- favorable currency impact;
- improved product portfolio mix, after deconsolidating Flash and integrating the recently acquired wireless businesses; and
- cost savings from our on-going restructuring initiatives.

Revenue results of \$1.99 billion for the second quarter came in above the high end of our internal planning target range of \$1.73 to \$1.93 billion, principally driven by stronger than expected performance across most market segments including Computer, Automotive, Telecom and Industrial and in China and Asia-Pacific. Bookings steadily increased throughout the second quarter despite a still uncertain environment. Our strong actions on fab loading to reduce inventory levels have led to a reduction in inventories of almost \$400 million in just six months, accelerating inventory turns sequentially to 4.1 turns from 2.9 turns. As expected, these actions have driven our second quarter gross margin to an extraordinarily low level. It is clear that the global recession has negatively impacted our financial results in the first half of 2009 but it has not slowed our efforts to develop leading-edge products. In the second quarter our pace of innovation continued as we brought to the market many next-generation products including analog controllers and power MOSFETs for power management in computer motherboards, high-voltage MDMesh power MOSFETs for switched- mode power supplies, MEMS gyroscopes, and advanced GPS solutions. Additionally, we ramped-up 55nm technology in ICs for set-top-boxes and, in wireless, shipped in volume TD-SCDMA devices.

#### Business Outlook

As we enter the third quarter, we are encouraged as our backlog, including frame orders, is higher than it was when we entered the second quarter of 2009. Based on current booking activity and visibility, we expect to register solid sequential revenue growth in all market segments and geographies. Additionally, we expect our gross margin to increase sequentially due to partially recovered operating efficiencies, an increase in fab utilization to about 75 percent still leading to some further reduction in inventory, and an improved product mix. Early booking indicators for the

fourth quarter are positive, but the global economic situation is still uncertain and we remain vigilant and prepared to adjust our manufacturing loading to meet changing demand. Finally, we are driving down our break-even point through the previously announced one billion dollar savings and productivity plan. This broad-reaching plan encompasses manufacturing, the rationalization of sites, and capturing synergies in wireless. We are in-line

with our plan to lower costs by \$750 million in 2009 and expect a majority of those savings to be realized in the second half of 2009.

For the third quarter of 2009, we expect revenues to be in the range of \$2.07 billion to \$2.27 billion, up sequentially between about 4% to 14% and our gross margin to reach the level of 31% plus or minus two percentage points.

This outlook is based on an assumed effective currency exchange rate of approximately \$1.37 = €1.00 for the third quarter of 2009, which reflects an assumed exchange rate (about \$1.41 = €1.00) combined with the impact of existing hedging contracts (hedged rate: \$1.33 = €1.00).

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 Half 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, at that time 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 \$27, out of which \$25 million has already been paid. Upon receipt of the payment, we will transfer ownership of our portfolio of unauthorized Auction Rate Securities to Credit Suisse and reverse impairment charges posted to date. 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.

At the end of March 2009, we entered into a framework agreement with the French Ministry of Economy, Industry and Employment for the “Nano2012” Research and Development program which confirmed our position as the Coordinator and Project Leader and allocated to us €340 million (about \$450 million) in grants for the period 2008-2012.

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 held on May 20, 2009, the following proposals, inter alia, were approved by our shareholders:

- The distribution of a cash dividend of \$0.12 per common share, to be paid in four equal installments, in May 2009, August 2009, November 2009 and February 2010. Payment of an installment will be made to shareholders of record in the month of each quarterly payment;



- 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.

On June 25, 2009, we announced the publication of our 2008 Corporate Responsibility Report. The report which covers all our activities and sites in 2008, contains detailed indicators of our performance across the full range of Social, Environmental, Health & Safety, and Corporate Governance issues and reaffirms our long-established commitment to serving its stakeholders with integrity, transparency and excellence.

## 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 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:
  - o Home Entertainment & Displays (“HED”);
  - o Automotive Products Group (“APG”);
  - o Computer and Communication Infrastructure (“CCI”); and
    - o Imaging (“IMG”).
- Industrial and Multisegment Products Sector (“IMS”), comprised of:
  - o Analog Power and Micro-Electro-Mechanical Systems (“APM”); and
  - o Microcontrollers, non-Flash, non-volatile Memory and Smart Card products (“MMS”).

- Wireless Segment, comprised of four product lines:
  - o Wireless Multi Media (“WMM”);
  - o Connectivity & Peripherals (“C&P”);
  - o Cellular Systems (“CS”);

o 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; and

oOther Wireless, in which we report manufacturing margin, R&D revenues and other items related to the wireless business but outside the ST-Ericsson JVS.

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 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 unused capacity charges, 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		(unaudited) Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(in millions)		(in millions)	
Net revenues by product segments:				
Automotive Consumer Computer and Communication Infrastructure Product Groups (ACCI)	\$722	\$1,101	\$1,349	\$2,146
Industrial and Multi-segment Products Sector (IMS)	595	865	1,093	1,637
Wireless segment	650	410	1,169	758
Others(1)	26	15	42	29
Flash Memories Group (FMG)	-	-	-	299
Total consolidated net revenues	\$1,993	\$2,391	\$3,653	\$4,869

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



	(unaudited)		(unaudited)	
	Three Months Ended		Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(in millions)		(in millions)	
Net revenues by product lines:				
Home Entertainment & Displays (“HED”)	\$ 183	\$ 271	\$ 363	\$ 521
Automotive Products Group (“APG”)	231	423	421	805
Computer and Communication Infrastructure (“CCI”)	200	273	368	558
Imaging (“IMG”)	100	134	189	255
Others	8	-	8	7
Automotive Consumer Computer and Communication Infrastructure Product Groups (“ACCI”)	722	1,101	1,349	2,146
Analog Power and Micro-Electro-Mechanical Systems (“APM”)	428	632	779	1,193
Microcontrollers, non-Flash, non-volatile Memory and Smartcard products (“MMS”)	166	233	313	444
Others	1	-	1	-
Industrial and Multisegment Products Sector (“IMS”)	595	865	1,093	1,637
Wireless Multi Media (“WMM”)	268	336	515	632
Connectivity & Peripherals (“C&P”)	111	74	208	126
Cellular Systems (“CS”) (1)	179	-	309	-
Ericsson Mobile Platforms (“EMP”)	83	-	128	-
Others	9	-	9	-
Wireless segment	650	410	1,169	758
Others	26	15	42	29
Flash Memories Group (“FMG”)	-	-	-	299
Total consolidated net revenues	\$ 1,993	\$ 2,391	\$ 3,653	\$ 4,869

(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 second quarter of 2008. Connectivity & Peripherals also partly benefited from the NXP wireless contribution.

	(unaudited)		(unaudited)	
	Three Months Ended		Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(in millions)		(in millions)	
Operating income (loss) by product segments :				
Automotive Consumer Computer and Communication Infrastructure Product Groups (ACCI)	\$(77 )	\$35	\$(112 )	\$60
Industrial and Multisegment Products Sector (IMS)	(16 )	132	(5 )	227
Wireless segment	(126 )	-	(232 )	(10 )
Others(1)	(209 )	(193 )	(472 )	(407 )
Flash Memories Group (FMG)	-	-	-	16
Total consolidated operating loss	\$(428 )	\$ (26 )	\$(821 )	\$(114 )

(1) Operating income (loss) of “Others” includes items such as unused capacity charges, 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.

	(unaudited)				(unaudited)			
	Three Months Ended		Six Months Ended		June 27, 2009		June 28, 2008	
	June 27, 2009		June 28, 2008		June 27, 2009		June 28, 2008	
	(as percentages of net revenues)				(as percentages of net revenues)			
Operating income (loss) by product segments:								
Automotive Consumer Computer and Communication Infrastructure Product Groups (ACCI) (1)	(10.7 )%	3.2 %	(8.3 )%	2.8 %				
Industrial and Multi-segment Products Sector (IMS) (1)	(2.7 )	15.3	(0.5 )	13.9				
Wireless segment (1)	(19.4 )	-	(19.8 )	(1.3 )				
Others(2)	-	-	-	-				
Flash Memories Group (FMG) (1)	-	-	-	5.4				
Total consolidated operating loss (3)	(21.5 )%	(1.1 )%	(22.5 )%	(2.3 )%				

(1) As a percentage of net revenues per product group.

(2) 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)				(unaudited)			
	Three Months Ended		Six Months Ended		June 27, 2009		June 28, 2008	
	June 27, 2009		June 28, 2008		June 27, 2009		June 28, 2008	
	(in millions)				(in millions)			
Reconciliation to consolidated operating loss:								
Total operating income (loss) of product segments	\$ (219 )	\$ 167	\$ (349 )	\$ 293				
Strategic and other research and development programs	(2 )	(6 )	(7 )	(7 )				
Acquired In-Process R&D	-	-	-	(21 )				
Start-up / Phase out costs	(13 )	-	(34 )	(7 )				
Impairment, restructuring charges and other related closure costs	(86 )	(185 )	(142 )	(369 )				
Unused capacity charges	(121 )	-	(260 )	(13 )				
Manufacturing services	6	-	6	-				
Other non-allocated provisions(1)	7	(2 )	(35 )	10				
Total operating loss Others	(209 )	(193 )	(472 )	(407 )				
Total consolidated operating loss	\$ (428 )	\$ (26 )	\$ (821 )	\$ (114 )				

(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		(unaudited) Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(in millions)		(in millions)	
Net Revenues by Location of Order Shipment(1)(2)				
EMEA	\$575	\$747	\$1,113	\$1,534
America	233	356	431	699
Asia Pacific	598	560	1,075	1,155
Greater China	499	616	861	1,245
Japan	88	112	173	236
Total	\$1,993	\$2,391	\$3,653	\$4,869

(1) Net revenues by location of order shipment are classified by location of customer invoiced. For example, products ordered by U.S.-based companies to be invoiced to Asia Pacific affiliates are classified as Asia Pacific revenues.

(2) As of January 1, 2009, Emerging Markets has been reallocated to the Europe, America and Asia Pacific organizations.

The table below shows our net revenues by location of order shipment and market segment application and channel as a percentage of net revenues:

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(as percentages of net revenues)		(as percentages of net revenues)	
Net Revenues by Location of Order Shipment(1)(2)				
EMEA %	% 28.9	% 31.2	% 30.5	% 31.5
America(2)	11.7	14.9	11.8	14.4
Asia Pacific	30.0	23.4	29.4	23.7
Greater China	25.0	25.8	23.6	25.5
Japan	4.4	4.7	4.7	4.9
Total	100.0 %	100.0 %	100.0 %	100.0 %
Net Revenues by Market Segment Application(3):				
Automotive	% 11.9	% 15.7	% 11.8	% 15.4
Consumer	11.5	14.1	12.4	13.9
Computer	12.6	11.9	11.9	12.2
Telecom	41.4	29.1	42.1	30.4
Industrial and Other	7.5	9.8	7.9	9.1
Distribution	15.1	19.4	13.9	19.0
Total	100.0 %	100.0 %	100.0 %	100.0 %



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- (1) Net revenues by location of order shipment are classified by location of customer invoiced. For example, products ordered by U.S.-based companies to be invoiced to Asia Pacific affiliates are classified as Asia Pacific revenues.
  - (2) As of January 1, 2009, Emerging Markets has been reallocated to the Europe, America and Asia Pacific organizations.
  - (3) The above table estimates, within a variance of 5% to 10% in the absolute dollar amount, the relative weighting of each of our target segments.

The following table sets forth certain financial data from our Consolidated Statements of Income, expressed in each case as a percentage of net revenues:

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 27, 2009 (as percentage of net revenues)	June 28, 2008 (as percentage of net revenues)	June 27, 2009 (as percentage of net revenues)	June 28, 2008 (as percentage of net revenues)
Net sales	98.9 %	99.5 %	99.3	99.4 %
Other revenues	1.1	0.5	0.7	0.6
Net revenues	100.0	100.0	100.0	100.0
Cost of sales	(73.9 )	(63.2 )	(73.8 )	(63.5 )
Gross profit	26.1	36.8	26.2	36.5
Selling, general and administrative	(14.3 )	(11.8 )	(15.5 )	(12.0 )
Research and development	(30.6 )	(19.6 )	(32.0 )	(20.1 )
Other income and expenses, net	1.7	1.3	2.7	0.8
Impairment, restructuring charges and other related closure costs	(4.4 )	(7.8 )	(3.9 )	(7.6 )
Operating loss	(21.5 )	(1.1 )	(22.5 )	(2.3 )
Other-than-temporary impairment charge on financial assets	(0.7 )	(1.6 )	(2.0 )	(1.4 )
Interest income, net	0.1	0.8	0.1	0.8
Loss on sale of financial assets	-	-	(0.2 )	-
Earnings (loss) on equity investments	(2.4 )	(0.2 )	(7.7 )	(0.1 )
Loss before income taxes and noncontrolling interests	(24.5 )	(2.1 )	(32.3 )	(3.0 )
Income tax benefit	3.1	0.2	4.3	0.4
Loss before noncontrolling interests	(21.4 )	(1.9 )	(28.0 )	(2.6 )
Net loss (income) attributable to noncontrolling interest	5.4	(0.1 )	4.5	(0.1 )
Net loss attributable to parent company	(16.0 )%	(2.0 )%	(23.5 )%	(2.7 )%

Second Quarter of 2009 vs. Second Quarter of 2008 and First Quarter of 2009

#### Net Revenues

	Three Months Ended			% Variation	
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)	Sequential	Year-Over-Year
Net sales	\$ 1,970	\$ 1,657	\$ 2,379	18.9 %	(17.2 )%
Other revenues	\$ 23	\$ 3	\$ 12	-	-
Net revenues	\$ 1,993	\$ 1,660	\$ 2,391	20.1 %	(16.6 )%

#### Year-over-year comparison

In the second quarter of 2009, revenues for both the TAM and the SAM registered a significant decrease due to the difficult economic environment. Based on most recently published estimates, semiconductor industry revenues

decreased year-over-year by approximately 20% for the TAM and 22% for the market we serve, the SAM, to reach approximately \$52 billion and \$31 billion, respectively.

Our second quarter 2009 net revenues experienced a similar trend, driven by the sharp decrease in demand from our customers. The majority of our market segments were negatively impacted by these difficult economic conditions and registered declining rates, with the weakest results in Industrial and others, Automotive, Distribution and Consumer. Our Telecom sector, however, increased on a year-over-year basis due to the contribution of the recently acquired wireless businesses from NXP and Ericsson. In the second quarter of 2009, we recognized \$23 million in other revenues which mainly consisted of the proceeds from licensing of the CMOS technology out of which we

recognized during the quarter an amount of \$18 million. Based on most recently published estimates, our as reported revenue variation was in line with the TAM and performed better than the SAM.

ACCI's revenues decreased 34.4%, driven by the weak results in Automotive, Consumer and Computer Peripherals. IMS registered a decline of 31.2%, across all its product lines, except for MEMS products which were in line with the previous period. Wireless sales registered growth of approximately 58.4%, thanks to the integration of the NXP and EMP wireless businesses; without this contribution, we estimate the decline to be approximately 24%. This negative trend was registered both in volume and in selling prices.

By location of order shipment, all regions but Asia Pacific were negatively impacted by the drop in revenues, ranging from the greatest decreases in America (34.3%) and in EMEA (23.0%) to the lowest of approximately 19% in Greater China. Only Asia Pacific experienced an increase of 6.8%. We have several large customers, with the largest one, the Nokia group of companies, accounting for approximately 17% of our second quarter 2009 net revenues, compared to 18% during the second quarter of 2008.

#### Sequential comparison

On a sequential basis our revenues improved significantly as a result of a strong demand in almost all of our product lines; the favorable trend was supported by an approximately 28% increase in units sold (excluding EMP), balanced by an approximately 10% decrease in average selling prices, partially due to a less favorable product and geographic mix. The second quarter of 2009 also benefited from the license of CMOS technology.

ACCI revenues increased by 15.1%, reflecting a solid contribution from Automotive and Computer, mainly driven by a higher level of units sold. IMS revenues increased by 19.3% as a result of higher sales volume, partially offset by declining selling prices. Wireless revenues increased by 25.5%, also driven by demand pick up and benefiting from one additional month of consolidating EMP business as compared to previous quarter.

All market segment applications increased, with the most significant increases registered in Distribution and Computer.

All regions registered a positive sequential performance in terms of revenues ranging from a 38.1% increase in Greater China to a 4.0% increase in Japan, with also a good performance in Asia Pacific which grew by 25.1%. In the second quarter of 2009, we had several large customers, with the largest one, the Nokia group of companies, accounting for approximately 17% of our net revenues, decreasing as compared to the 19% it accounted for during the first quarter of 2009.

#### Gross profit

	Three Months Ended			% Variation	
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)	Sequential	Year-Over-Year
Cost of sales	\$ (1,473 )	\$ (1,223 )	\$ (1,511 )	(20.5 )%	2.5 %
Gross profit	\$ 520	\$ 437	\$ 880	19.0 %	(40.9 )%
Gross margin (as a percentage of net revenues)	26.1 %	26.3 %	36.8 %	—	—

The second quarter of 2009 was largely penalized by our anticipated plans to cut the level of our inventories which resulted in significant underloading of our wafer fabs with consequent unused capacity charges. Gross margin decreased on a year-over-year basis, reaching a level of 26.1%; however, the unused capacity charges were estimated to account for approximately 6 percentage points. Manufacturing inefficiencies have negatively impacted our gross margin due to disruption in running the fabs. On a year-over-year comparable basis, the significant decline was also due to the lower volume of our revenues, as well as declining selling prices, while the impact of the U.S. dollar exchange rate was estimated to be favorable.

On a sequential comparative basis, there was no major variation; however, the second quarter of 2009 benefited from the licensing of CMOS technology at full margin, while gross margin in the first quarter of 2009 was estimated to be impacted by approximately 8 percentage points of unused capacity charges.

#### Selling, general and administrative expenses

	Three Months Ended			% Variation	
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)	Sequential	Year-Over-Year
	(In millions)				
Selling, general and administrative expenses	\$ (286 )	\$ (280 )	\$ (281 )	(2.1 )%	(1.7 )%
As percentage of net revenues	(14.3 )%	(16.9 )%	(11.8 )%	—	—

The amount of our selling, general and administrative expenses did not register significant variations in all the periods under review; however, when compared on a year-over-year basis, the second quarter of 2009 benefited from the favorable impact of U.S. dollar exchange rate and the cost savings originated by our restructuring initiatives. Our share-based compensation charges were \$5 million in the second quarter of 2009, compared to \$8 million in the second quarter of 2008 and \$6 million in the first quarter of 2009. In addition, the second quarter of 2009 included \$11 million related to amortization charges generated by recent acquisitions. Finally, our selling, general and administrative expenses were impacted by a longer accounting period as compared to the first quarter of 2009.

The ratio to sales of our selling, general and administrative expenses was therefore mainly driven by the volume of our revenues; as a percentage of revenues, they increased to 14.3% compared to 11.8% in the prior year's second quarter, while sequentially they decreased from 16.9%.

#### Research and development expenses

	Three Months Ended			% Variation	
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)	Sequential	Year-Over-Year
	(In millions)				
Research and development expenses	\$ (610 )	\$ (557 )	\$ (470 )	(9.5 )%	(30.0 )%
As percentage of net revenues	(30.6 )%	(33.6 )%	(19.6 )%	—	—

On a year-over-year basis, our R&D expenses increased in line with the expansion of our activities, including the integration of the acquired businesses from NXP and Ericsson; however, the second quarter of 2009 registered a significant benefit originated by the U.S. dollar rate strengthening and the cost savings of our restructuring initiatives. The second quarter of 2009 included an amount of \$3 million of share-based compensation charges compared to \$5 million in the second quarter of 2008 and \$4 million in the first quarter of 2009. In addition, the second quarter of 2009 included \$14 million related to amortization charges generated by recent acquisitions. These expenses were net of research tax credits which amounted to \$37 million, basically equivalent to prior periods. As a percentage of revenues, second quarter 2009 R&D was equivalent to 30.6%, with a substantial increase compared to the year ago period due to declining revenues and the newly integrated wireless activities.

On a sequential basis, R&D expenses also increased, due to one additional month of consolidating EMP's business and were also impacted by a longer accounting period as compared to the first quarter of 2009.



## Other income and expenses, net

	Three Months Ended		
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)		
R e s e a r c h a n d d e v e l o p m e n t funding	\$60	\$72	\$24
Start-up/Phase-out costs	(13 )	(21 )	-
Exchange gain (loss) net	(6 )	19	7
Patent litigation costs	(4 )	(3 )	(2 )
Patent pre-litigation costs	(3 )	(2 )	(3 )
G a i n o n s a l e o f o t h e r n o n - c u r r e n t assets	-	-	2
Other, net	-	(2 )	2
O t h e r i n c o m e a n d e x p e n s e s , net	34	63	30
A s a p e r c e n t a g e o f n e t revenues	1.7	% 3.8	% 1.3

Other income and expenses, net, mainly included, as income, items such as R&D funding and, as expenses, start-up costs and patent claim costs. R&D funding income was associated with our R&D projects, which, upon project approval, qualifies as funding on the basis of contracts with local government agencies in locations where we pursue our activities. In the second quarter of 2009, the balance of these factors resulted in net income of \$34 million, which was favorably impacted by R&D funding of approximately \$60 million, which was significantly higher than in the year-ago quarter upon signatures of a new program in France during the first quarter of 2009, which also provided for retroactive funding covering 2008. The second quarter of 2009 also included a high amount of phase-out costs associated with the closure of our facility in Carrollton, Texas.

## Impairment, restructuring charges and other related closure costs

	Three Months Ended		
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)		
Impairment, restructuring charges and other related closure costs	\$(86 )	\$(56 )	\$(185 )
As a percentage of net revenues	(4.4 )%	(3.3 )%	(7.8 )%

In the second quarter of 2009, we recorded impairment, restructuring charges and other related closure costs of \$86 million of which:

- \$48 million charges recorded in view of the closure of our Ain Sebaa, Morocco, Carrollton, Texas and Phoenix, Arizona sites, composed of \$18 million impairment charges on the Carrollton and Phoenix assets and \$30 million of one-time termination benefits, as well as other relevant charges;



- \$22 million related to a new plan announced in April 2009 by ST-Ericsson, to be completed by the second quarter of 2010, primarily consisting of on-going termination benefits pursuant to the closure or downsizing of certain locations in Europe and the United States; and
- \$16 million related to other ongoing and newly committed restructuring plans, consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations, as well as workforce reduction in Asia Pacific.

In the first quarter of 2009, we recorded impairment, restructuring charges and other related closure costs of \$56 million primarily consisting of \$43 million of one-time termination benefits to be paid in relation to the closure of our Ain Sebaa (Morocco), Carrollton (Texas) and Phoenix (Arizona) sites, as well as other related charges; \$7 million related to other ongoing and newly committed restructuring plans, consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations, as well as workforce reduction in Asia Pacific; and \$6 million as impairment on certain goodwill.

In the second quarter of 2008, we recorded impairment, restructuring charges and other related closure costs of \$185 million, mainly comprised of the decision to sell our fab in Phoenix, which gave rise to an impairment loss of \$114 million; FMG assets disposal which required the recognition of a loss for \$25 million and \$10 million as restructuring and other related disposal costs; this loss was the result of additional charges for the contributed assets;

one-time termination benefits to be paid at the closure of our Carrollton (Texas) and Phoenix (Arizona) sites, as well as other charges, which were approximately \$27 million; and other previously and newly committed restructuring plans, for which we incurred \$9 million restructuring and other related closure costs consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations.

#### Operating loss

	Three Months Ended		
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)		
Operating loss	\$(428 )	\$(393 )	\$(26 )
In percentage of net revenues	(21.5 )%	(23.7 )%	(1.1 )%

Our operating results were largely impacted by the strong decline in demand, which also triggered the recognition of significant underutilization charges and impairment and restructuring charges. As a result, we registered an operating loss in the second quarter of \$428 million, increasing compared to the prior year period.

All of our product segments registered a decline in their operating results on a year-over-year basis. ACCI's operating result moved from a profit of \$35 million to a loss of \$77 million, driven by the significant drop in revenues. IMS registered a loss of \$16 million, compared to a profit of \$132 million in the year-ago quarter; its profitability was largely impacted by a strong decline in sales volume, while operating expenses remained at a high level. Wireless registered an operating loss of \$126 million, deteriorating compared to a break even position in the year ago period, as a result of higher operating expenses, in particular in R&D.

In the second quarter of 2009, our operating loss included \$86 million in restructuring, impairment and other-than-temporary impairment charges. In the first quarter of 2009 our operating loss was impacted by \$56 million in restructuring and impairment charges, and other-than-temporary impairment charges. In the year-ago quarter, the impact of impairment, restructuring and other-than-temporary impairment charges was \$185 million.

#### Interest income, net

	Three Months Ended		
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)		
Interest income, net	\$1	\$1	\$19

We recorded net interest income of \$1 million, which decreased compared to the year-ago quarter due to less interest income received as a result of significantly lower U.S. dollar and Euro denominated interest rates. This figure is flat on a sequential basis.

#### Other-than-temporary impairment charges on financial assets

Three Months Ended

	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)		
Other-than-temporary impairment charges on financial assets	\$(13 )	\$(58 )	\$(39 )

In the second quarter of 2009, we registered an additional \$13 million as other-than-temporary impairment charge relating to the unauthorized portfolio of Auction Rate Securities investments which Credit Suisse has purchased on our account.

As of June 27, 2009, we had Auction Rate Securities, representing interests in collateralized obligations and credit linked notes, that were carried on our balance sheet as available-for-sale financial assets at an amount of \$170 million with a par value of \$415 million. On February 16, 2009, we announced that FINRA had awarded us, in connection with sales of unauthorized Auction Rate Securities made to us by Credit Suisse, approximately \$406

million and 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. See “Other Developments” for more information.

For more details, see the paragraph “Liquidity and Capital Resources.”

#### Loss on equity investments

	Three Months Ended		
	June 27, 2009	March 28, 2009	June 28, 2008
	(unaudited)	(unaudited)	(unaudited)
	(In millions)		
Loss on equity investments	\$(49 )	\$(232 )	\$(5 )

In the second quarter of 2009, we recorded a charge of \$49 million, of which \$37 million representing our net shareholding in the loss reported by Numonyx in the first quarter of 2009 and \$11 million related to our proportionate share in JVD.

In the first quarter of 2009, we recorded an impairment loss of \$200 million on our Numonyx equity investment.

#### Loss on sale of financial assets

	Three Months Ended		
	June 27, 2009	March 28, 2009	June 28, 2008
	(unaudited)	(unaudited)	(unaudited)
	(In millions)		
Loss on sale of financial assets	-	\$(8 )	-

In 2006, we entered into cancellable swaps with a combined notional value of \$200 million to hedge the fair value of a portion of the convertible bonds due 2016 carrying a fixed interest rate. The cancellable swaps convert the fixed rate interest expense recorded on the convertible bonds due 2016 to a variable interest rate based upon adjusted LIBOR. Until November 1, 2008, the cancellable swaps met the criteria for designation as a fair value hedge. Due to the exceptionally low U.S. dollar interest rate as a consequence of the financial crisis, we assessed in 2008 that the swaps were no longer effective as of November 1, 2008 and the fair value hedge relationship was discontinued. Consequently, the swaps were classified as held-for-trading financial assets. An unrealized gain was recognized in earnings from discontinuance date totaling \$15 million and was reported on the line “Unrealized gain on financial assets” of the consolidated statement of income for the three months ended December 31, 2008.

This instrument was sold during the first quarter of 2009 with a loss of \$8 million due to variation in the underlying interest rates compared to December 31, 2008.

#### Income tax benefit

	Three Months Ended		
	June 27, 2009	March 28, 2009	June 28, 2008
	(unaudited)	(unaudited)	(unaudited)
	(In millions)		

	(In millions)		
Income tax benefit	\$62	\$95	\$5

During the second quarter of 2009, we registered an income tax benefit of \$62 million, reflecting a yearly estimated effective tax rate of 14.8% before one-time elements applied to the quarterly loss before taxes, which is equivalent to the rate in the first quarter of 2009.

Our tax rate is variable and depends on changes in the level of operating results within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. Our income tax amounts and rates depend also on our loss carryforwards and their relevant valuation allowances, which are based on estimated projected plans; in case of material changes in these plans, the valuation allowances could be adjusted accordingly with impact on our tax charges. We currently enjoy certain tax

benefits in some countries. Such benefits may not be available in the future due to changes in the local jurisdictions, our effective tax rate could be different in future quarters and may increase in the coming years. In addition, our yearly income tax charges include the estimated impact of provisions related to potential uncertain tax positions.

Net loss (income) attributable to noncontrolling interest

	Three Months Ended		
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)		
Net loss (income) attributable to noncontrolling interest	\$109	\$54	\$(1 )

In the second quarter of 2009, we booked a net loss of \$109 million attributable to noncontrolling interest, which mainly included the 50% owned by Ericsson in the consolidated ST-Ericsson Holding AG. This amount reflected their share in the joint venture's loss.

In the first quarter of 2009, the net loss was also partially attributable to NXP's 20% ownership in the ST-NXP joint venture for the month of January.

All periods included the recognition of noncontrolling interest related to our joint venture in Shenzhen, China for assembly operating activities, which however does not report material amounts.

Net loss attributable to parent company

	Three Months Ended		
	June 27, 2009 (unaudited)	March 28, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)		
Net loss attributable to parent company	\$(318 )	\$(541 )	\$(47 )
As percentage of net revenues	(16.0 )%	(32.6 )%	(2.0 )%

For the second quarter of 2009, we reported a net loss of \$318 million as a result of the adverse economic conditions impacting our operations, and of certain specific charges as described above.

Loss per share for the second quarter of 2009 was \$(0.36) compared to \$(0.62) in the first quarter of 2009 and \$(0.05) in the year-ago quarter.

In the second quarter of 2009, the impact of restructuring, impairment and other-than-temporary impairment charges was estimated to be approximately \$(0.08) per share. In the first quarter of 2009, loss per share was impacted for approximately \$(0.31) per share by restructuring and impairment charges, other-than-temporary impairment charges and the loss on our Numonyx equity investment. In the year-ago quarter, the impact of impairment, restructuring and other-than temporary impairment charges was estimated to be equivalent to approximately \$(0.23) per share.

First Half of 2009 vs. First Half of 2008

Based on the most recently published estimates, semiconductor industry revenue decreased by approximately 25% for both the TAM and the SAM.

## Net Revenues

	Six Months Ended		
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)	% Variation
	(In millions)		
Net sales	\$3,627	\$4,841	(25.1)%
Other revenues	\$26	\$28	-
Net revenues	\$3,653	\$4,869	(25.0)%

Our net revenues in the first half of 2009 decreased significantly due to the difficult economic environment experienced by the semiconductor industry. Our revenues variation was in line with the market in the period under review. The majority of our market segments were negatively impacted by these difficult conditions and registered declining rates, particularly in Distribution, Automotive, Industrial, Consumer and Computer. The negative trend in volume in all product segments was partially offset by improved average selling prices originated by a more favorable product mix.

By location of order shipment, all regions registered drop in their revenues, ranging from the greatest decreases in America (38.4%) and in Greater China (30.9%) to the lowest in Asia Pacific (6.9%). We had several large customers, with the largest one, the Nokia group of companies, accounting for approximately 18% of our net revenues, compared to 19% during the first half of 2008, excluding FMG.

#### Gross profit

	Six Months Ended			% Variation
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)		
	(In millions)			
Cost of sales	\$ (2,696 )	\$ (3,090 )	12.8	%
Gross profit	\$ 957	\$ 1,779	(46.2)	%
Gross margin (as a percentage of net revenues)	26.2 %	36.5 %	—	

The first half of 2009 was largely penalized by the unused capacity charges linked to significant underloading of our wafer fabs. Gross margin was largely below the previous year's result, reaching a level of 26.2%; however, the unused capacity charges were estimated to account for approximately 7 percentage points. Lower volumes of our revenues and deteriorated manufacturing efficiencies also contributed to the declining margin. Furthermore, the 2009 gross profit and gross margin were favorably impacted by the stronger U.S. dollar rate.

#### Selling, general and administrative expenses

	Six Months Ended			% Variation
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)		
	(In millions)			
Selling, general and administrative expenses	\$ (566 )	\$ (585 )	3.3	%
As percentage of net revenues	(15.5 )%	(12.0 )%	—	

Our selling, general and administrative expenses decreased by 3.3% in spite of the increased activities with the integration of NXP and EMP businesses, mainly due to by the favorable impact of the strengthening U.S. dollar exchange rate coupled with costs savings from our on-going restructuring initiatives. As a percentage of revenues, they increased to 15.5% compared to the prior year's first half, due primarily to the sharp drop in our sales. The first half of 2009 amount included \$10 million of share-based compensation charges compared to \$24 million in the first half of 2008.

#### Research and development expenses

Six Months Ended



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	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)	% Variation
	(In millions)		
Research and development expenses	\$(1,168 )	\$(978 )	(19.4 )%
As percentage of net revenues	(32.0 )%	(20.1 )%	—

On a year-over-year basis, our R&D expenses increased in line with the expansion of our activities, including primarily the integration of the acquired businesses from NXP and Ericsson net of a first impact of on-going restructuring initiatives. The first half of 2009 included \$7 million of share-based compensation charges compared to \$15 million in the first half of 2008. In addition, the first half of 2009 included \$27 million related to amortization

charges generated by recent acquisitions. These expenses were net of research tax credits which amounted to \$77 million in the first half of 2009, compared to \$73 million in the year-ago first half. The 2009 R&D expenses also benefited from a stronger U.S. dollar exchange rate.

#### Other income and expenses, net

	Six Months Ended	
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)	
R e s e a r c h a n d d e v e l o p m e n t funding	\$ 131	\$ 44
Start-up/Phase-out costs	(34 )	(7 )
Exchange gain (loss) net	13	11
Patent litigation costs	(7 )	(7 )
Patent pre-litigation costs	(5 )	(6 )
G a i n o n s a l e o f o t h e r n o n - c u r r e n t assets	—	4
Other, net	—	—
O t h e r i n c o m e a n d e x p e n s e s , net	98	39
A s a p e r c e n t a g e o f n e t revenues	2.7 %	0.8 %

Other income and expenses, net, mainly included, as income, items such as R&D funding and, as expenses, start-up costs and patent claim costs. R&D funding income was associated with our R&D projects, which, upon project approval, qualifies as funding on the basis of contracts with local government agencies in locations where we pursue our activities. In the first half of 2009, the balance of these factors resulted in net income of \$98 million with significant improvement compared to the equivalent period of 2008, resulting from the booking of a new program of R&D funding in France. Total funding was \$131 million in the first half of 2009, significantly increasing compared to the first half of 2008. The first half of 2009 also included a higher amount of phase-out costs associated with the closure of our facilities in Carrollton, Texas and Ain Sebaa, Morocco.

#### Impairment, restructuring charges and other related closure costs

	Six Months Ended	
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)	
Impairment, restructuring charges and other related closure costs	\$ (142 )	\$ (369 )
As a percentage of net revenues	(3.9 )%	(7.6 )%

In the first half of 2009, we recorded impairment, restructuring charges and other related closure costs of \$142 million of which:

- \$91 million related to the closure of our Ain Sebaa (Morocco), Carrollton (Texas) and Phoenix (Arizona) sites, of which \$66 million of one-time termination benefits as well as other relevant charges and \$25 million impairment charges on the fair value of Carrollton and Phoenix assets;
- \$22 million related to the new plan announced in April 2009 by ST-Ericsson, to be completed by the second quarter of 2010 primarily consisting of on-going termination benefits pursuant to the closure or downsizing of certain locations in Europe and the United States;
- \$23 million related to other ongoing and newly committed restructuring plans, consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations, as well as workforce reduction in Asia Pacific; and
- \$6 million as impairment on certain goodwill.

In the first half of 2008, we recorded impairment, restructuring charges and other related closure costs of \$369 million, mainly comprised of the FMG assets disposal which required the recognition of \$189 million loss and \$12 million as restructuring and other related disposal costs; 2007 restructuring plan, which required the recognition of

\$41 million as restructuring charges and \$114 million impairment loss on our Phoenix fab; and previously announced programs which accounted for a charge of \$13 million.

#### Operating loss

	Six Months Ended	
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)	
Operating loss	\$ (821 )	\$ (114 )
I n p e r c e n t a g e o f n e t revenues	(22.5 )%	(2.3 )%

Our operating results were largely impacted by the strong decline in demand and manufacturing inefficiencies, which also triggered the recognition of significant underutilization charges and impairment and restructuring charges. As a result, we registered an operating loss of \$821 million, significantly larger than our operating loss of \$114 million in the first half of 2008, while the initiatives to extract \$480 million cost synergies have been launched and are on-going.

All of our product segments registered a decline in their operating results on a year-over-year basis. ACCI moved from a profit of \$60 million to a loss of \$112 million, driven by the significant drop in revenues and manufacturing inefficiencies. IMS registered a loss of \$5 million, compared to a profit of \$227 million in the first half of 2008, also largely impacted by a strong decline in sales volume and manufacturing inefficiencies. Wireless registered an operating loss of \$232 million, deteriorating compared to the operating loss of \$10 million in the year ago period, as a result of decreasing revenues and higher operating expenses resulting from the recent acquisitions.

#### Interest income, net

	Six Months Ended	
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)	
Interest income, net	\$ 2	\$ 40

We recorded net interest income of \$2 million, which decreased compared to previous periods due to less interest income received on our cash and cash equivalents and marketable securities as a result of significantly lower U.S. dollar and Euro denominated interest rates.

#### Other-than-temporary impairment charges on financial assets

	Six Months Ended	
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)	
Other-than-temporary impairment charges on financial assets	\$ (72 )	\$ (69 )

In the first half of 2009, we registered an additional \$72 million as an other-than-temporary impairment charge relating to the unauthorized portfolio of Auction Rate Securities investments which Credit Suisse has purchased on our account.

As of June 27, 2009, we had Auction Rate Securities, representing interests in collateralized obligations and credit linked notes, that were carried on our balance sheet as available-for-sale financial assets at an amount of \$170 million with a par value of \$415 million. On February 16, 2009, we announced that FINRA had awarded us, in connection with sales of unauthorized Auction Rate Securities made to us by Credit Suisse, approximately \$406 million and 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. Other-than-temporary impairment charges will be reversed upon collection of the related award. See “Other Developments” for more information.

For more details, see the paragraph “Liquidity and Capital Resources.”

#### Loss on equity investments

	Six Months Ended	
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)	
Loss on equity investments	\$ (281 )	\$ (5 )

The first half of 2009 included a charge of \$66 million that represents our net shareholding in the loss reported by Numonyx in the fourth quarter of 2008 and the first quarter of 2009 and an additional impairment loss of \$200 million on our Numonyx equity investment, which reflected the joint venture’s deteriorating performance in the metrics used to assess the value of the company. We also recorded a \$15 million loss related to our proportionate share in JVD.

Through the first quarter of 2008, our income on equity investments included our minority interest in the joint venture with Hynix Semiconductor in China, which was transferred to Numonyx on March 30, 2008. In addition, we had recorded in the second quarter of 2008 a \$5 million loss on our Numonyx equity investment.

#### Loss on sale of financial assets

	Six Months Ended	
	June 27, 2009 (unaudited)	June 28, 2008 (unaudited)
	(In millions)	
Loss on sale of financial assets	\$ (8 )	-

In 2006, we entered into cancellable swaps with a combined notional value of \$200 million to hedge the fair value of a portion of the convertible bonds due 2016 carrying a fixed interest rate. The cancellable swaps convert the fixed rate interest expense recorded on the convertible bonds due 2016 to a variable interest rate based upon adjusted LIBOR. Until November 1, 2008, the cancellable swaps met the criteria for designation as a fair value hedge. Due to the exceptionally low U.S. dollar interest rate as a consequence of the financial crisis, we assessed in 2008 that the swaps were no longer effective as of November 1, 2008 and the fair value hedge relationship was discontinued. Consequently, the swaps were classified as held-for-trading financial assets. An unrealized gain was recognized in earnings from discontinuance date totaling \$15 million and was reported on the line “Unrealized gain on financial assets” of the consolidated statement of income for the six months ended December 31, 2008.

This instrument was sold during the first half of 2009 with a loss of \$8 million due to variation in the underlying interest rates compared to December 31, 2008.

#### Income tax benefit

Six Months Ended	
June 27, 2009 (unaudited)	June 28, 2008 (unaudited)
(In millions)	

Income tax benefit	\$ 157	\$ 19
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During the first half of 2009, we registered an income tax benefit of \$157 million, reflecting a yearly estimated effective tax rate of 14.8% before one-time elements applied to our loss before income taxes.

Our tax rate is variable and depends on changes in the level of operating results within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. Our income tax amounts and rates depend also on the loss carryforwards and their relevant valuation allowances, which are based on estimated projected plans; in case of material changes in these plans, the valuation allowances could be adjusted accordingly with an impact on our tax charges. We currently enjoy certain tax benefits in some countries. Such benefits may not be available in the future due to changes in the local

jurisdictions, and our effective tax rate could be different and may increase in the coming years. In addition, our yearly income tax charges include the estimated impact of some provisions related to potential and certain tax positions.

Net loss (income) attributable to noncontrolling interest

Six Months Ended  
June 27,  
2009  
(unaudited)