STMICROELECTRONICS NV
Form 6-K
August 01, 2013

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 1, 2013

Commission File Number: 1-13546

STMicroelectronics N.V.
(Name of Registrant)

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

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

Form 20-F Q Form 40-F o

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

Yes £ No Q

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes £ No Q

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes £ No Q

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

Enclosure: STMicroelectronics N.V.'s Second Quarter and First Half 2013:

- Operating and Financial Review and Prospects;
- Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, and Statements of Equity and related Notes for the three months and six months ended June 29, 2013; and
- Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flows and Statements of Equity for the three months and six months ended June 29, 2013 and Notes thereto included elsewhere in this Form 6-K, and our annual report on Form 20-F for the year ended December 31, 2012 as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC") on March 4, 2013 (the "Form 20-F"). The following discussion contains statements of future expectations and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections "Critical Accounting Policies Using Significant Estimates", "Business Outlook" and "Liquidity and Capital Resources—Financial Outlook". Our actual results may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in addition to the factors set forth below, see "Cautionary Note Regarding Forward-Looking Statements" and "Item 3. Key Information—Risk Factors" included in the Form 20-F. We assume no obligation to update the forward-looking statements or such risk factors.

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

- Critical Accounting Policies using Significant Estimates, which we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.

- Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months and six months ended June 29, 2013 designed to provide context for the other sections of the MD&A.

- Business Outlook, our expectations for selected financial items for the third quarter of 2013.

- Other Developments in the Second Quarter 2013, general information about our activities.

- Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months and six months ended June 29, 2013, as well as segment information.

- Legal Proceedings, describing the status of open legal proceedings.

- Related Party Transactions, disclosing transactions with related parties.

- Discussion of the impact of changes in exchange rates, interest rates and equity prices on our activity and financial results.

- Liquidity and Capital Resources, presenting an analysis of changes in our balance sheets and cash flows, and discussing our financial condition and potential sources of liquidity.

- Backlog and Customers, discussing the level of backlog and sales to our key customers.

- Disclosure Controls and Procedures.
- Cautionary Note Regarding Forward-Looking Statements.

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Critical Accounting Policies Using Significant Estimates

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

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

We base the estimates and assumptions on historical experience and on various other factors such as market trends, market information used by market participants and the latest available business plans that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. While we regularly evaluate our estimates and assumptions, the actual results we experience could differ materially and adversely from our estimates. To the extent there are material differences between our estimates and actual results, future results of operations, cash flows and financial position could be significantly affected.

Our Consolidated Financial Statements include the ST-Ericsson joint ventures; in particular, we fully consolidate ST-Ericsson SA and related affiliates (“JVS”), which is owned 50% plus a controlling share by us and is responsible for the full commercial operations of the Wireless business, primarily sales and marketing. The other joint venture is focused on fundamental R&D activities. Its parent company is ST-Ericsson AT SA (“JVD”), which is owned 50% plus a controlling share by Ericsson and is therefore accounted for by us under the equity-method. In March 2013, we signed a memorandum of understanding with Ericsson describing the principles for the break-up and wind-down of the ST-Ericsson joint venture whose closing is expected to become effective in early August 2013. See "—ST-Ericsson break-up".

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We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our Consolidated Financial Statements:

Revenue recognition. Our policy is to recognize revenues from sales of products to our customers when all of the following conditions have been met: (a) persuasive evidence of an arrangement exists; (b) delivery has occurred; (c) the selling price is fixed or determinable; and (d) collectability is reasonably assured. Our revenue recognition usually occurs at the time of shipment.

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

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

Our insurance policy relating to product liability only covers physical and other direct damages caused by defective products. We carry limited insurance against immaterial, non-consequential damages. 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 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 claims.

We maintain an allowance for doubtful accounts for potential estimated 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 evaluate our customers' financial condition periodically and record a provision for any specific account we consider as doubtful. In the second quarter of 2013, we did not record any new material specific provision related to bankrupt customers. If we receive information that the financial condition of our customers has deteriorated, resulting in an impairment of their ability to make payments, additional allowances could be required.

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

Business combinations and goodwill. The purchase accounting method applied to business combinations requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the identifiable assets acquired and liabilities assumed. If the assumptions and estimates used to allocate the purchase price are not correct or if business conditions change, purchase price adjustments or future asset impairment charges could be required. At June 29, 2013, the value of goodwill in our balance sheet amounted to $135 million.

Impairment of goodwill. Goodwill recognized in business combinations is not amortized but is tested for impairment annually in the third quarter, or more frequently if a triggering event indicating a possible impairment exists. Goodwill subject to potential impairment is tested at a reporting unit level, which represents a component of an operating segment for which discrete financial information is available after performing a qualitative assessment to determine whether an impairment test is necessary, in cases when we have chosen such option. This impairment test determines whether the fair value of each reporting unit for which goodwill is allocated is lower than the total carrying amount of relevant net assets allocated to such reporting unit, including its allocated goodwill. If lower, the implied fair value of the reporting unit goodwill is then compared to the carrying value of the goodwill and an impairment charge is recognized for any excess. In determining the fair value of a reporting unit, we use the lower of a value determined by applying a market approach with financial metrics of comparable public companies compared to an estimate of the expected discounted future cash flows associated with the reporting unit. 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 and its revenues evolution, the market acceptance of certain new technologies and products, the 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, our sales expectations and our costs evaluation, and are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may prove to be incorrect, and future adverse changes in market conditions, changes in strategies, lack of performance of major customers or operating results of acquired businesses that are not in line with our estimates may require impairments.

We performed our annual impairment test of goodwill on each of our reporting units during the third quarter of 2012. Based upon the first step of the goodwill impairment test, no impairment was recorded for the DCG, AMS and MMS reporting units since the fair value of the reporting units exceeded their carrying values. However, we were required, based upon step one, to conduct the second step of the impairment test for the Wireless reporting unit whose estimated fair value was lower than its carrying value. As a result of our impairment test, we recorded a non-cash impairment of $690 million in the third quarter of 2012 followed by an additional non-cash impairment charge of $232 million in the fourth quarter of 2012, effectively writing off the total amount of goodwill of the Wireless reporting unit, which was required as part of our strategic plan to exit the Wireless joint venture. No impairment charge of goodwill was recorded in the first half of 2013.

Further impairment charges could also result from new valuations triggered by changes in our product portfolio or strategic alternatives, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the current carrying value.

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

We will continue to monitor the carrying value of our assets. If market conditions deteriorate, this could result in future non-cash impairment charges against earnings. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or by strategic transactions, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the one underlying the carrying amount.

At June 29, 2013, the value of intangible assets subject to amortization in our balance sheet amounted to $250 million.

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

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

We recorded an impairment charge of $8 million on property, plant and equipment in the second quarter of 2013 related to ST-Ericsson assets following our decision to break up the ST-Ericsson joint venture.

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

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

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

Restructuring charges. We have undertaken, and we may continue to undertake, significant restructuring initiatives, which have required us, or may require us in the future, to develop formalized plans for exiting any of our existing activities. We recognize the fair value of a liability for costs associated with exiting an activity when we have a present obligation and the amount can be reasonably estimated. Given the significance and timing of the execution of our restructuring activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. This process can require more than one year due to requisite governmental and customer approvals and our capability to transfer technology and know-how to other locations. As we operate in a highly cyclical industry, we monitor and evaluate business conditions on a regular basis. If broader or newer initiatives, which could include production curtailment or closure of other manufacturing facilities, were to be taken, we may incur additional charges as well as change estimates of the amounts previously recorded. The potential impact of these changes could be material and could have a material adverse effect on our results of operations or financial condition. In the second quarter of 2013, the restructuring charges and other related closure costs amounted to $35 million before taxes, mainly related to our initiative to reduce quarterly net operating expenses, comprised of combined selling, general and administrative and research and development expenses, net of other income and expenses, to the $600-$650 million range.

ST-Ericsson break-up. We signed a memorandum of understanding with Ericsson on March 17, 2013, describing the principles for the break-up and wind-down of the ST-Ericsson joint venture. On the basis of this memorandum of understanding, ST-Ericsson activities have been split up into three main parts. The first part includes the design, development and related expenses associated with the R&D costs for the LTE multimode thin modem products, which is part of our Wireless product line. These expenses have been charged back to Ericsson, resulting in a $131 million reduction of the total R&D expenses in our Consolidated Statements of Income for the first half of 2013. The second part relates to the existing ST-Ericsson products business, other than LTE multimode thin modems, and design activities in France and Italy and certain assembly and test facilities, which are, since March 2, 2013, fully accounted for in our accounts with no attribution to noncontrolling interest in our Consolidated Statement of Income. The third part is related to wind-down activities remaining at ST-Ericsson, equally funded by the two parties. The reorganization of the ST-Ericsson joint venture, which involves at completion the effective break-up and wind-down of the activities of the ST-Ericsson joint venture, in line with our memorandum of understanding signed in March 2013, is expected to occur in early August 2013, in connection with the expected closing of the transaction. We expect that the total cash costs net of proceeds from beginning 2013 through the end of the joint venture, including the covering of ST-Ericsson's ongoing operations during the transition period and the restructuring costs related to the exit from the joint venture, will be in the range of approximately $300 million to $350 million.

Share-based compensation. We measure the cost of share-based service awards based on the fair value of the award on the grant date. This cost is recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period, and is adjusted for actual forfeitures that occur before vesting. Our share-based compensation plans award shares contingent on the achievement of certain performance conditions based on financial objectives, including our financial results when compared to certain industry performances. In order to determine share-based compensation to be recorded for the period, we use significant estimates on the number of awards expected to vest, including the probability of achieving the fixed performance conditions including those relating to industry performances compared to our financial results, and our best estimates of award forfeitures and employees' service period. Our assumption related to industry performances is generally taken with one quarter lag in line with the availability of the information. In the second quarter of 2013, we recorded a total charge of approximately $5 million relating to our outstanding stock award plans.

Income (loss) on Equity-method Investments. We record our share in the results of entities that we account for under the equity method. This recognition is based on results reported by these entities, relying on their internal reporting systems to measure financial results. In case of triggering events, such as continuing difficult market conditions, which could lead to continued operation losses and negative cash flow, or in the case of a strategic repositioning by one or more of our partners, we determine whether our investment is temporarily or other than temporarily impaired. If impairment is considered to be other than temporary, we need to assess the fair value of our investment and record an impairment charge directly in earnings when fair value is lower than the carrying value of the investment. We make this assessment by evaluating the business on the basis of the most recent plans and projections or to the best of our estimates. In the second quarter of 2013, we recognized a loss of approximately $91 million related to our equity investment in 3Sun largely due to a non-cash charge of $69 million on our equity value in 3Sun as share of losses in the investment due to impairment charges reported by 3Sun and a $2 million income related to other investments, principally ST-Ericsson JVD. We are continuing to monitor our equity investments and if required, additional other-than-temporary impairment charges could negatively impact our future results. As of June 29, 2013, the value in our balance sheet of our equity investments was $17 million.

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

Trading and available for sale financial assets are valued at fair value. The fair value of quoted debt and equity securities is based on current market prices. If the market for a financial asset is not active, if no observable market price is obtainable, or if the security is not quoted, we measure fair value by using assumptions and estimates. For unquoted equity securities, these assumptions and estimates include the use of recent arm's length transactions; for debt securities without available observable market price, we establish fair value by reference to publicly available indexes of securities with the same rating and comparable or similar underlying collaterals or industries' exposure, which we believe approximates the amount that would be received from the sale of the asset in an orderly transaction between market participants. In measuring fair value, we make maximum use of market inputs and rely as little as possible on entity specific inputs. As of June 29, 2013, the value in our balance sheet of our financial assets was $189 million, of which $100 million was U.S. government debt securities and $89 million was senior debt floating rate notes. Both were classified as assets available-for-sale.

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

We also assess the likelihood of realization of our deferred tax assets originated by our net operating loss carry-forwards. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable profit available against loss carry forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies. We record a valuation allowance against the deferred tax assets when we consider it is more likely than not that the deferred tax assets will not be realized, which would increase our provision for income taxes.

As of June 29, 2013, we had current deferred tax assets of $224 million and non-current deferred tax assets of $395 million, net of valuation allowances. Our deferred tax assets have increased in the past few years. In the second quarter of 2013, we continued to assess the future recoverability of the deferred tax assets resulting from past net operating losses.

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

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

We record a provision when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly evaluate losses and claims to determine whether they need to be adjusted based on current information available to us. Such estimates are difficult to the extent that they are largely dependent on the status of ongoing litigation that may vary based on positions taken by the Court with respect to issues submitted, demands of opposing parties, changing laws, discovery of new facts or other matters of fact or law. As of June 29, 2013, based on our current evaluation of ongoing litigation and claims we face, we have not estimated any amounts that could have a material impact on our results of operations and financial condition with respect to probable risks. We currently estimate that possible losses for known claims are in the range of $30 million to $50 million. 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, facts or communications, unexpected rulings or changes in the law, 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 IP rights. We are also involved in certain legal proceedings concerning such issues. See “Legal Proceedings”.

Other claims. We are subject to the possibility of loss contingencies arising in the ordinary course of business. These include, but are not limited to: warranty costs on our products not covered by insurance, breach of contract claims, tax claims beyond assessed uncertain tax positions as well as claims for environmental damages. We are also exposed to numerous legal risks which until now have not resulted in legal disputes and proceedings. These include risks related to product recalls, environment, anti-trust, anti-corruption and competition, as well as other compliance regulations. We may also face claims in the event of breaches of law committed by individual employees or third parties. In determining loss contingencies, we consider the likelihood of a loss of an asset or the occurrence of a liability, as well as our ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly re-evaluate any losses and claims and determine whether our provisions need to be adjusted based on the current information available to us. As of June 29, 2013, based on our current evaluation of ongoing litigation and claims we face, we have not estimated any amounts that could have a material impact on our results of operations and financial condition with respect to either probable or possible risks. In the event we are unable to accurately estimate the amount of such loss in a correct and timely manner, this could have a material adverse effect on our results of operations or financial condition at the time such loss were to materialize. For further details, see “Legal Proceedings” and Note 23 to our Consolidated Financial Statements.

There can be no assurance that all IP litigation or claims and other claims to which we are currently subject will be resolved in our favor or as currently anticipated. If the outcome of any claim or litigation were to be unfavorable to us, we could incur monetary damages, and/or face an injunction, all of which singly or in the aggregate could have an adverse effect on our results of operations and our ability to compete.

Pension and Post-Retirement Benefits. Our results of operations and our Consolidated Balance Sheet include amounts for pension obligations and post-retirement benefits that are measured using actuarial valuations. At June 29, 2013, our pension and post-retirement benefit obligations net of plan assets amounted to $492 million based on the assumption that our employees will work with us until they reach the age of retirement. These valuations are based on key assumptions, including discount rates, expected long-term rates of return on funds and salary increase rates. These assumptions are updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. Any changes in the pension schemes or in the above assumptions can have an impact on our valuations. The measurement date we use for our plans is December 31.

Fiscal Year

Under Article 35 of our Articles of Association, our financial year extends from January 1 to December 31, which is the period end of each fiscal year. The first quarter of 2013 ended on March 30, 2013. The second quarter ended on June 29. The third quarter and the fourth quarter of 2013 will end on September 28 and December 31, 2013, respectively. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year and can also differ from equivalent prior years' periods. There were 91 days in the second quarter of 2013 compared to 89 days in the first quarter of 2013 and 91 days in the second quarter of 2012.

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 certain product families such as Microprocessors ("MPUs"), MOS DRAMs, MOS SRAMs, optoelectronics devices, Flash Memories, MOS ROMs and EPROMs, but includes MOS Other Memory Circuits and Image Sensors).

In the second quarter of 2013, the semiconductor industry registered sequentially a solid growth in demand, while at the same time there is still some uncertainty in the market place, in particular in the smartphone market.

Based on the most recently published estimates by WSTS, semiconductor industry revenues increased in the second quarter of 2013 on a sequential basis by approximately 6% for the TAM and 4% for the SAM to reach approximately $75 billion and $44 billion, respectively. On a year-over-year basis, in the second quarter of 2013, the TAM increased by approximately 2% while the SAM slightly decreased by approximately 1%.

With reference to our revenues performance, our second quarter 2013 revenues amounted to $2,045 million, a 1.8% increase on a sequential basis, which was below the mid-point of our guidance, mainly due to lower revenues in our Wireless product line; excluding Wireless, our revenues increased 6.8%, which was in line with expectations. The sequential increase in our revenues is the result of an increase of 7.3% in our Sense & Power and Automotive Products (SPA) segment while our Embedded Processing Solutions (EPS) segment decreased by 5.0% due to a drop in Wireless revenues by 32.1%. On a year-over year basis, our revenues decreased by 4.8%, which is the result of an increase of 4.6% in our SPA segment whereas our EPS segment decreased 16.0% mainly driven by weakness in Wireless, Digital Convergence and Imaging product lines. Our performance was below the SAM both on a sequential and year-over-year basis, mainly due to Wireless. For a detailed description of our segments, see "Results of Operations—Segment Information" below.

Our effective average exchange rate for the second quarter of 2013 was $1.30 for €1.00 compared to $1.31 for €1.00 for the first quarter of 2013 and $1.32 for €1.00 in the second quarter of 2012. Our effective average exchange rate for the first half of 2013 was $1.30 for €1.00 compared to $1.32 for €1.00 for the first half of 2012. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see "Impact of Changes in Exchange Rates" below.

Our second quarter 2013 gross margin reached 32.8% of revenues, slightly above the 32.7% mid-point of our guidance. On a sequential basis, our second quarter 2013 gross margin improved 150 basis points reflecting lower unsaturation charges, manufacturing efficiencies and higher volumes partially offset by price pressure on our revenues. On a year-over-year comparison, gross margin decreased 150 basis points, notwithstanding lower unsaturation charges and manufacturing efficiencies, principally due to a decrease in the selling prices and a less favorable product mix in comparison with the prior year period.

Our combined selling, general and administrative and research and development expenses, net of other income and expenses, amounted to $736 million, a significant decrease compared to $808 million in the prior quarter and $887 million in the prior year quarter. Sequentially, the decrease was principally due to the charge back to Ericsson of the LTE multimode thin modem development expenses, the ST-Ericsson wind-down and also benefiting from our cost savings initiatives.

Our operating losses were $107 million in the second quarter of 2013 significantly improving compared to the loss of $281 million in the first quarter of 2013 and the loss of $207 million in the second quarter of 2012. Sequentially, the improvement in our operating losses in the second quarter of 2013 was mainly driven by our operating expenses reduction, lower restructuring charges and the benefit of higher sales volume and improved gross profit. By product segment, the main improvement was registered by EPS which was the primary beneficiary of the reduction in our operating expenses

In the second quarter of 2013, we saw sequential progress towards our objectives of sales growth, gross margin improvement and expense reduction. Sales were in line with our guidance, despite an accelerated decline of ST-Ericsson's existing product revenues. Gross margin came in above the mid-point of our guidance due to manufacturing efficiencies and increased volumes. Our quarterly operating expense run rate continued to decrease substantially both on a sequential and year-over-year basis. Our strong sequential increase in sales of 6.8%, excluding Wireless product line, came from growth in several key product areas including Microcontrollers, Industrial and Power, Automotive and Imaging. These results were due to both the introduction of new products and the changes we made last year to expand our geographic and customer coverage, with new major accounts and distributors, with the latter further increasing as a percentage of sales. We again made solid progress towards our quarterly net operating expenses target range as we exited the second quarter with operating expenses excluding restructuring charges of $736 million, or $72 million and $151 million lower than the prior and year-ago quarters.

Business Outlook

Macro trends remain uncertain but excluding ST-Ericsson we have seen a progressive improvement in bookings in the second quarter, although, towards the end of the second quarter, we experienced a softening in the smartphone market also impacting our products.

We continue to expect the ramp of key products in MEMS, Automotive, Microcontrollers and Imaging in the second half of this year, which should lead to higher sequential revenue results for both the third and fourth quarters of this year.

In combination, we expect third quarter net revenues, excluding our Wireless product line, to increase about 3.5% at the mid-point. Including our Wireless product line, we expect overall revenues to be about flat sequentially at the mid-point of our guidance. We again expect significant reductions in operating expenses in the third quarter and we are well aligned to achieve our net operating expenses target range of $600 million to $650 million in the first quarter of 2014. Furthermore, with the closing of the ST-Ericsson transaction, the ST-Ericsson activities will be deconsolidated.

As we look ahead, we anticipate progressive improvement in our gross margin. First, with fab utilization at a more stable and optimal level we plan to continue to grow our business in our targeted growth drivers. Second, we are focused on better utilizing and optimizing our technology portfolio. Third, we are now in a position to more aggressively manage our product mix in order to prune lower margin products from our portfolio. To successfully achieve this, we will make gradual structural changes to our manufacturing footprint to ensure that it matches our needs, complemented by our foundry sourcing. As a result, we plan to gradually expand 8-inch capacity while winding down certain 6-inch manufacturing lines in Singapore and Catania, Italy and consolidate our back-end activities in China to Shenzhen.

Finally, to support our proprietary R&D activities for CMOS derivative technology investments, we recently signed an important frame agreement with the French Government for the ‘Nano2017’ program.

We expect third quarter 2013 revenues to be about flat on a sequential basis, plus or minus 3.5 percentage points. Gross margin in the third quarter is expected to be about 33.5%, plus or minus 2.0 percentage points.

This outlook is based on an assumed effective currency exchange rate of approximately $1.30 = €1.00 for the 2013 third quarter and includes the impact of existing hedging contracts. The third quarter will close on September 28, 2013.

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

Other Developments in the Second Quarter 2013

On April 22, we announced that our Supervisory Board has approved the Managing Board proposal to the forthcoming 2013 Annual General Meeting of Shareholders to resolve on the distribution of a cash dividend of US$0.10 for the second quarter, and of US$0.10 for the third quarter, per outstanding share of our common stock to be paid in June and September of 2013, respectively. The amount of the proposed second and third quarter of 2013 cash dividend is stable with respect to previous quarterly dividend distribution. In addition, upon the proposal of the Supervisory Board, the quarterly dividend distribution will be decided semi-annually instead of annually.

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On April 22, we announced that Ms. Martine Verluyten has succeeded Mr. Tom de Waard as Chair of the Audit Committee of our Supervisory Board.

On May 21, we announced our leadership of Places2Be, a 3-year, €360M advanced-technology pilot-line project with the participation of 18 other leading European companies and academic institutions to support the industrialization of Fully-Depleted Silicon-On-Insulator (FD-SOI) microelectronics technology. Places2Be ("Pilot Lines for Advanced CMOS Enhanced by SOI in 2x nodes, Built in Europe") aims to support the deployment of an FD-SOI pilot line at 28-nm and the subsequent node, as well as a dual source that will enable volume manufacturing in Europe. Places2Be will drive the creation of a European microelectronics design ecosystem using this FD-SOI platform and explore the path towards the next step for this technology (14/10nm).

On May 22, we announced that Jean-Marc Chery, Executive Vice President, was appointed General Manager of the Embedded Processing Solutions Segment, a new position, and Vice-Chairman of the Corporate Strategic Committee where he has been a Member since 2008. We also announced the appointments of Claude Dardanne, Executive Vice President and General Manager of Microcontroller, Memory & Secure MCU, and Benedetto Vigna, Executive Vice President and General Manager of Analog, MEMS and Sensors, as Members of the Corporate Strategic Committee. The Sense & Power and Automotive products Segment is led by our President and Chief Executive Officer, Carlo Bozotti.

On May 28, we announced that ST-Ericsson has sold the assets and intellectual property rights associated with its mobile connectivity Global Navigation Satellite System business to a leading semiconductor company. The sale of these assets represents another step in the execution of ST-Ericsson' shareholders announcement of March 18, 2013. In addition to the assets and intellectual property rights associated with this business, a world class team of 130 industry veterans located in Daventry (UK), Bangalore (India) and Singapore are anticipated to join the buyer at closing of the transaction. The closing of the transaction is expected to be completed in August 2013. ST-Ericsson estimates the proceeds from the sale, combined with the avoidance of employee restructuring charges and other related restructuring costs, will reduce the joint venture's cash needs by approximately $90 million.

On June 17, we announced that we had signed a comprehensive agreement with Rambus Inc. expanding existing licenses between the two Companies, settling all outstanding claims, and committing both organizations to explore additional opportunities for collaboration. The multifaceted agreement gives Rambus access to our Fully-Depleted Silicon On Insulator (FD-SOI) process-technology design environment while giving us secured license terms from the Cryptography Research, Inc. (CRI) division of Rambus that makes it possible for us to expand deployment of security technology for banking, identity, PayTV, video gaming, smartphones, and government, across a wider range of products.

Our Annual General Meeting of Shareholders was held on June 21 in Amsterdam and the following decisions were approved by our shareholders:

- The adoption of our 2012 Statutory Annual Accounts prepared in accordance with International Financial Reporting Standards (IFRS);

- The distribution of a semi-annual cash dividend of US$0.10 in the second quarter of 2013, and of US$0.10 in the third quarter of 2013, per common share, to be paid in June and September of 2013;

- The appointment of Ms. Janet Davidson as a new member of the Supervisory Board for a three-year term, expiring at the 2016 Annual General Meeting of Shareholders, as a replacement for Mr. Raymond Bingham, whose mandate has expired;

- The reappointment of Mr. Alessandro Ovi as member of the Supervisory Board for a three-year term, expiring at the 2016 Annual General Meeting of Shareholders;
- The amendment of the compensation scheme of the Supervisory Board; and
- The approval of a new four-year Unvested Stock Award Plan for Management and Key Employees.

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On July 22, we announced a key frame agreement with the French government for the "Nano2017" program which supports our proprietary R&D activities for CMOS derivative technology. This program will strengthen our leadership in key technologies: FD-SOI for logic, next-generation imaging and next-generation embedded non-volatile memories for microcontrollers.

On July 24, we announced the publication of our 2012 Sustainability Report. Containing comprehensive details of our sustainability strategy, policies and performance during 2012, the Report also illustrates how we embed sustainability into every level of our operations to create value for all our stakeholders.

The reorganization of the ST-Ericsson joint venture, which involves at completion the effective break-up and wind-down of the activities of the ST-Ericsson joint venture, in line with our memorandum of understanding signed in March 2013, is expected to occur in early August 2013, in connection with the expected closing of the transaction. In addition, we agreed with Ericsson funding commitments to the wind-down operations which remain the residual scope of the joint venture, and an indemnity agreement to the ST-Ericsson directors and officers. This residual scope will be governed by a simplified shareholders' agreement, for the purpose of winding down all subsidiaries in an orderly and cost-efficient manner, of performing post-closing break-up actions and transition services, and of selling residual patents and tangible assets.

Results of Operations

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

In the Semiconductors business area, we design, develop, manufacture and market a broad range of products, including discrete and standard commodity components, application-specific integrated circuits ("ASICs"), full-custom devices and semi-custom devices and application-specific standard products ("ASSPs") for analog, digital and mixed-signal applications. In addition, we further participate in the manufacturing value chain of Smartcard products, which include the production and sale of both silicon chips and Smartcards.

Effective January 1, 2013, our segment reporting reflects our strategy announced on December 10, 2012. Our strategy takes into account the evolution of the markets we are in and the environment we see in the years to come and is based on our leadership in our two product segments, supported by a Sales & Marketing organization with a particular focus on our major accounts, as well as expanding our penetration of the mass market and focusing on five growth drivers: Automotive Products, Application Processors, including Digital Consumer Products, MEMS and Sensors, Microcontrollers and Smart Power.

Our segments are as follows:

- Sense & Power and Automotive Products (SPA), including the following product lines:
    - Automotive (APG);
    - Industrial & Power Discrete (IPD)*;
    - Analog & MEMS (AMS); and
    - Other SPA;

- Embedded Processing Solutions (EPS), comprised of the following product lines:
  - o Digital Convergence Group (DCG);
  - o Imaging, BI-CMOS ASIC and Silicon Photonics (IBP);
  - o Microcontrollers, Memory & Security (MMS);
  - o Wireless (WPS); and
  - o Other EPS.

* Effective in the third quarter of 2013, it will be named “Industrial & Power Group (IPG)”.

In 2013, we revised our results from prior periods in accordance with the new segment structure. The preparation of segment information based on the current segment structure requires us to make estimates and assumptions in determining the operating income (loss) of the segments for the prior reporting periods. We believe that the revised 2012 presentation is consistent with that of 2013 and we use these comparatives when managing our company.

In the Subsystems business area, we design, develop, manufacture and market subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to our business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the guidance on disclosures about segments of an enterprise and related information. All the financial values related to Subsystems including net revenues and related costs, are reported in the segment "Others".

The following tables present our consolidated net revenues and consolidated operating income (loss) by product segment. For the computation of the segments' internal financial measurements, we use certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative ("SG&A") expenses and a significant part of research and development ("R&D") expenses. In compliance with our internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs including ST-Ericsson plans, unused capacity charges, certain one-time corporate items such as the first quarter 2012 NXP arbitration award charge, strategic and special R&D programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the product segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold.

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(Unaudited, in millions)		(Unaudited, in millions)	
Net revenues by product line and product segment:				
Automotive (APG)	$416	$404	$801	$795
Industrial & Power Discrete (IPD)	466	455	896	869
Analog & MEMS (AMS)	327	297	640	599
Sense & Power and Automotive Products (SPA)	1,209	1,156	2,337	2,263
Digital Convergence Group (DCG)	189	229	413	437
Imaging, BI-CMOS ASIC and Silicon Photonics (IBP)	108	124	191	252
Microcontrollers, Memory & Security (MMS)	351	284	651	558
Wireless (WPS)	176	344	436	635
Other EPS	-	-	1	-
Embedded Processing Solutions (EPS)	824	981	1,692	1,882
Others(1)	12	11	26	20
Total consolidated net revenues	$2,045	$2,148	$4,055	$4,165

(1) In the second quarter of 2013, "Others" includes revenues from the sales of Subsystems ($7 million), sales of materials and other products not allocated to product segments ($4 million) and miscellaneous ($1 million).

	Three Months Ended		Six Months Ended	

	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(Unaudited, in millions)		(Unaudited, in millions)	
Operating income (loss) by product segment:				
Sense & Power and Automotive Products (SPA)	$42	$97	$99	$190
Embedded Processing Solutions (EPS)(1)	(106)	(233)	(316)	(527)
Others(2)	(43)	(71)	(171)	(222)
Total consolidated operating loss	$(107)	$(207)	$(388)	$(559)

(1) The majority of Wireless' activities included in EPS are run through ST-Ericsson JVS. In addition, Wireless includes other items affecting operating results related to the Wireless business. The noncontrolling interest of Ericsson in ST-Ericsson JVS' operating results (which are 100% included in Wireless) is credited on the line "Net loss (income) attributable to noncontrolling interest" of our Consolidated Statements of Income, which represented $21 million for the quarter ended June 29, 2013.

(2) Operating loss of "Others" includes items such as impairment, restructuring charges and other related closure costs including ST-Ericsson plans, unused capacity charges, certain one-time corporate items such as the first quarter 2012 NXP arbitration award charge and other unallocated expenses such as: strategic or special R&D programs, certain corporate-level operating expenses and other costs that are not allocated to the product segments, as well as operating earnings of the Subsystems and Other Products Group.

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(Unaudited, as percentage of net revenues)		(Unaudited, as percentage of net revenues)	
Operating income (loss) by product segment:				
Sense & Power and Automotive Products (SPA)(1)	3.5 %	8.3 %	4.3 %	8.4 %
Embedded Processing Solutions (EPS) (1)	(12.8)	(23.7)	(18.7)	(28.0)
Others	-	-	-	-
Total consolidated operating loss(2)	(5.2)%	(9.6)%	(9.6)%	(13.4)%

(1) As a percentage of net revenues per product segment.
(2) As a percentage of total net revenues.

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(Unaudited, in millions)		(Unaudited, in millions)	
Reconciliation to consolidated operating loss:				
Total operating loss of product segments	$(64)	$(136)	$(217)	$(337)
Unused capacity charges	(2)	(16)	(26)	(87)
Impairment, restructuring charges and other related closure costs	(43)	(56)	(144)	(74)
Strategic and other research and development programs	(6)	(3)	(10)	(5)
NXP arbitration award	-	-	-	(54)
Other non-allocated provisions(1)	8	4	9	(2)
Total operating loss Others	(43)	(71)	(171)	(222)
Total consolidated operating loss	$(107)	$(207)	$(388)	$(559)

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

Net revenues by location of shipment and by market channel

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

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(Unaudited, in millions)		(Unaudited, in millions)	
Net Revenues by Location of Shipment(1):				
EMEA	$516	$535	$1,006	$1,048
Americas	322	319	626	621
Greater China-South Asia	839	908	1,632	1,738
Japan-Korea	368	386	791	758
Total	$2,045	$2,148	$4,055	$4,165

(1) Net revenues by location of shipment are classified by location of customer invoiced or reclassified by shipment destination in line with customer demand. For example, products ordered by U.S.-based companies to be invoiced to Greater China-South Asia affiliates are classified as Greater China-South Asia revenues. Furthermore, the comparison among the different periods may be affected by shifts in shipment from one location to another, as requested by our customers.

The table below shows the percentage of our net revenues by market channel:

Net Revenues by Market Channel(1):

OEM	74	.3%	78	.0%	74	.7%	78	.5
Distribution	25	.7	22	.0	25	.3	21	.5
Total	100	%	100	%	100	%	100	%

(1) Original Equipment Manufacturers ("OEM") are the end-customers to which we provide direct marketing application engineering support, while Distribution customers refers to the distributors and representatives that we engage to distribute our products around the world.

The following table sets forth certain financial data from our unaudited Consolidated Statements of Income:

	Three Months Ended (unaudited) June 29, 2013				Three Months Ended (unaudited) June 30, 2012			
	$ million		% of net revenues		$ million		% of net revenues	
Net sales	2,034		99	.4%	2,140		99	.7%
Other revenues	11		0	.6	8		0	.3
Net revenues	2,045		100		2,148		100	
Cost of sales	(1,373	)	(67	.2)	(1,412	)	(65	.7)
Gross profit	672		32	.8	736		34	.3
Selling, general and administrative	(285	)	(13	.9)	(292	)	(13	.6)
Research and development	(453	)	(22	.1)	(617	)	(28	.7)
Other income and expenses, net	2		0	.1	22		1	.0
Impairment, restructuring charges and other related closure costs	(43	)	(2	.1)	(56	)	(2	.6)
Operating loss	(107	)	(5	.2)	(207	)	(9	.6)
Interest income (expense), net	7		0	.4	(6	)	(0	.3)
Income (loss) on equity method investments	(89	)	(4	.4)	(2	)	(0	.1)
Loss before income taxes and noncontrolling interest	(189	)	(9	.2)	(215	)	(10	.0)
Income tax benefit (expense)	16		0	.8	(20	)	(0	.9)
Net loss	(173	)	(8	.4)	(235	)	(10	.9)
Net loss (income) attributable to noncontrolling interest	21		1	.0	160		7	.4
Net loss attributable to parent company	(152	)	(7	.4)	(75	)	(3	.5)%

Second Quarter 2013 vs. First Quarter 2013 and Second Quarter 2012

Net revenues

	Three Months Ended			% Variation	
	June 29, 2013	March 30, 2013	June 30, 2012	Sequential	Year Over Year
	(Unaudited, in millions)				

Net sales	$2,034	$2,003	$2,140	1.6	%	(5.0	)
Other revenues	11						