STMICROELECTRONICS NV
Form 6-K
November 10, 2016

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 November 10, 2016

Commission File Number: 1 13546

STMicroelectronics N.V.
(Name of Registrant)

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

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

Form 20 F Q Form 40 F £

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

Yes £ No Q

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

Yes £ No Q

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

Yes £ No Q

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

Enclosure: STMicroelectronics N.V.'s Third quarter and Nine Months ended October 1, 2016:

- 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 nine months ended October 1, 2016; 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 nine months ended October 1, 2016 and Notes thereto included elsewhere in this Form 6 K, and our annual report on Form 20 F for the year ended December 31, 2015 as filed with the U.S. Securities and Exchange Commission (the “Commission” or the “SEC”) on March 16, 2016 (the “Form 20 F”). The following discussion contains statements of future expectations and other forward looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections “Business Overview” and “Liquidity and Capital Resources—Financial Outlook: Capital Investment”. Our actual results may differ significantly from those projected in the forward looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward looking statements in addition to the factors set forth below, see “Cautionary Note Regarding Forward Looking Statements” and “Item 3. Key Information—Risk Factors” included in the Form 20 F. We assume no obligation to update the forward looking statements or such risk factors.

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

- Critical Accounting Policies using Significant Estimates.
- Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months and nine months ended October 1, 2016 designed to provide context for the other sections of the MD&A, including our expectations for selected financial items for the fourth quarter of 2016.
- Other Developments in the third quarter of 2016.
- Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months and nine months ended October 1, 2016, as well as segment information.
- Legal Proceedings.
- Discussion of the impact of changes in exchange rates, interest rates and equity prices on our activity and financial results.
- Liquidity and Capital Resources, presenting an analysis of changes in our balance sheets and cash flows, and discussing our financial condition and potential sources of liquidity.
- Impact of Recently Issued U.S. Accounting Standards.
- Backlog and Customers, discussing the level of backlog and sales to our key customers.
- Disclosure Controls and Procedures.
- Cautionary Note Regarding Forward-Looking Statements.

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STMicroelectronics N.V. (“ST” or the “Company”) is a global semiconductor leader delivering intelligent and energy-efficient products and solutions that power the electronics at the heart of everyday life. ST’s products are found everywhere today, and together with our customers, we are enabling smarter driving and smarter factories, cities and homes, along with the next generation of mobile and Internet of Things devices. By getting more from technology to get more from life, ST stands for life.augmented.

Critical Accounting Policies Using Significant Estimates

There were no material changes in the first nine months of 2016 to the information provided under the heading “Critical Accounting Policies Using Significant Estimates” included in our Form 20-F.

Fiscal Year

Under Article 35 of our Articles of Association, our fiscal year extends from January 1 to December 31. The first quarter of 2016 ended on April 2, 2016, the second quarter ended on July 2, 2016 and the third quarter ended on October 1, 2016. The fourth quarter will end on December 31, 2016. 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, as illustrated in the below table for the years 2015 and 2016.

	Q1	Q2	Q3	Q4
	Days			
2015	87	91	91	96
2016	93	91	91	91

Business Overview

Our results of operations for each period were as follows:

	Three Months Ended			% Variation	
	October 1, 2016	July 2, 2016	September 26, 2015	Sequential	Year Over Year
	(In millions, except per share amounts)				
Net revenues	$1,797	$1,703	$ 1,764	5.5 %	1.9 %
Gross profit	643	577	613	11.4%	4.8 %
Gross margin as percentage of net revenues	35.8 %	33.9 %	34.8 %	+190bps	+100bps
Operating income	90	28	91	-	-
Net income attributable to parent company	71	23	90	-	-
Earnings per share	$0.08	$0.03	$ 0.10	-	-

The total available market is defined as the “TAM”, while the serviceable available market, the “SAM”, is defined as the market for products sold by us (which consists of the TAM and excludes major devices such as Microprocessors (MPUs), Dynamic random-access memories (DRAMs), optoelectronics devices, Flash Memories and the Wireless Application Specific market products such as Baseband and Application Processor).

Based on the data published by World Semiconductor Trade Statistics (WSTS), semiconductor industry revenues increased in the third quarter of 2016 on a sequential basis by approximately 11% for the TAM and 10% for the SAM, to reach approximately $88 billion and $42 billion, respectively. On a year-over-year basis, the TAM increased by approximately 4% while the SAM increased by 9%.

Third quarter 2016 revenues amounted to $1,797 million, a 5.5% sequential increase, at the midpoint of our released guidance. Analog and MEMS Group (AMG) revenues increased sequentially 7.1% driven by motion MEMS and microphones. Microcontrollers and Digital ICs Group (MDG) increased 5.5% on a sequential basis driven by general purpose microcontrollers and digital ASICs for networking. Automotive and Discrete Group (ADG) revenues decreased 2.3% on a sequential basis due to seasonality in automotive products and substantially flat revenues in power discretes. Specialized image sensors, reported in Others, registered a strong sequential revenue growth due to new products, based on our Time-of-Flight technology, ramping in wireless applications.

On a year-over-year basis, third quarter net revenues increased 1.9%, or 3.4% excluding businesses undergoing a phase-out (mobile legacy products, camera modules and set-top box). Growth was driven by MEMS and sensors, microcontrollers, automotive, specialized image sensors and digital ASICs partially offset by analog and power discretes - both negatively impacted by the weak computer and peripheral market - and by the discontinued product lines.

Compared to the served market, our performance was below the SAM on a sequential and year-over-year basis.

Our effective average exchange rate for the third quarter of 2016 was $1.12 for €1.00 substantially stable compared to the rate of the second quarter of 2016 and decreasing compared to $1.16 for €1.00 in the third quarter of 2015. 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 third quarter 2016 gross margin was at 35.8% of revenues, 30 basis points above the mid-point of our guidance, including a negative impact of about 60 basis points from unused capacity charges. Gross margin increased sequentially by 190 basis points, favorably impacted by manufacturing efficiencies together with improved product mix for a total of around 310 basis points, partially offset by normal price pressure, higher unused capacity charges ($11 million compared to $8 million in the second quarter of 2016) and slight unfavorable currency effects, net of hedging for a total of around 100 basis points. Year-over-year, our third quarter 2016 gross margin improved by 100 basis points, benefitting from improved manufacturing efficiencies and favorable currency effects, net of hedging, partially offset by normal price pressure.

Our aggregated selling, general and administrative (SG&A) and research and development (R&D) costs amounted to $542 million, decreasing compared to $565 million in the prior quarter benefitting from favorable seasonality and the progressive savings of the set-top box restructuring plan launched at the beginning of the year, partially offset by annual salary increases. On a year-over-year basis, operating expenses decreased by about 1.3% compared to $549 million in the prior-year quarter, mainly due to the benefits of the set-top box restructuring plan and to favorable currency effects, net of hedging, partially offset by annual salary increases.

Other income and expenses, net, amounted to $18 million, decreasing from $28 million in the previous quarter and from $38 million in the year-ago quarter, in both cases due to a lower level of R&D grants.

Impairment, restructuring charges and other related closure costs in the third quarter of 2016 were $29 million, compared to $12 million and $11 million in the prior and year-ago quarter, respectively, and related principally to the set-top box restructuring plan.

In the third quarter of 2016, our operating income was $90 million, improving from an income of $28 million in the second quarter of 2016 and basically flat compared to an income of $91 million in the year-ago quarter. Excluding restructuring and impairment charges, third quarter of 2016 operating income was $119 million, compared to an income of $40 million in the previous quarter and an income of $102 million in the year-ago period. Sequentially, the improvement of our operating result before impairment and restructuring charges was mainly due to higher revenues, higher gross profit and lower operating expenses. Compared to the year-ago period, the improvement of our operating result before impairment and restructuring charges was mainly due to favorable currency exchange rates, net of hedging, improved manufacturing efficiencies, better product mix, and the benefits resulting from our set-top box restructuring plan, partially offset by reduced sale price, lower R&D grants and annual salary increases.

Our net cash from operating activities was positive at $330 million and net cash used in investing activities was $230 million, allowing us to generate a positive free cash flow (non U.S GAAP measure) of $100 million for the third quarter of 2016. In the period, our net cash variation, including the cash outflow of $78 million for the acquisition of ams’ NFC and RFID reader business and the net cash used in financial activities which included $53 million of dividend and $54 million repayment of long-term debt, was negative $7 million.

Demand is currently strong in the smartphone market and we continue to see positive trends in automotive and industrial. Thanks to our strategic focus on Smart Driving and Internet of Things, the increased traction we are seeing with our new products and positive market trends, ST is positioned to achieve year-over-year revenue growth for 2016 driven by automotive, specialized image sensors and microcontrollers. In addition, we expect for 2016 to improve our profitability and continue to generate solid free cash flow. While we remain mindful of macroeconomic factors and their potential impact on our customers and the semiconductor market, we see less macro risk than we did earlier in the year. Based on these factors, we anticipate, for the fourth quarter of 2016, a sequential increase in net revenues by about 3.2% plus or minus 3.5 percentage points and the gross margin to be about 37.0% plus or minus 2.0 percentage points.

This outlook is based on an assumed effective currency exchange rate of approximately $1.11= €1.00 for the 2016 fourth quarter and includes the impact of existing hedging contracts. The fourth quarter will close on December 31, 2016.

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 third quarter of 2016

On July 29, 2016, we announced the acquisition of ams' (SIX: AMS) assets related to Near-Field Communication (NFC) and Radio-frequency identification (RFID) reader business. In exchange of $78 million in cash plus an earn-out contingent to future results up to $37 million, we acquired intellectual property, technologies, products and business highly complementary to our secure microcontroller solutions serving mobile devices, wearables, banking, identification industrial, automotive and IoT markets. For further information, see Note 15 Business Combinations

On August 23, 2016 we published our IFRS 2016 Semi Annual Accounts for the six-month period ended July 2, 2016 on our website and filed them with the AFM (Autoriteit Financiële Markten), the Netherlands Authority for the Financial Markets.

In October 2016, the Company extended for another 10-year period the existing option agreement with Stichting Continuiteït ST, an independent Dutch foundation.

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.

During the first quarter of 2016, our internal organization changed to align with our strategic focus on Smart Driving and on Internet of Things applications. Comparative numbers were restated accordingly.

Our reportable segments are as follows:

- Automotive and Discrete Group (ADG), comprised of all automotive dedicated ICs, both digital and analog, and discrete products.

- Analog and MEMS Group (AMG), comprised of low-power analog ICs, both general purpose and high-end, smart power products for industrial and power conversion, and micro-machinery activity.

- Microcontrollers and Digital ICs Group (MDG), comprised of general purpose and secure microcontrollers, EEPROM memories, and digital ICs outside of automotive.

"Others" includes all the financial values related to the Imaging Product Division, Subsystems and other products, as well as items not allocated to the segments such as impairment, restructuring charges and other related closure costs, unused capacity charges, strategic or special research and development programs and other minor unallocated expenses such as: certain corporate-level operating expenses, patent claims and litigation, and other costs that are not allocated to the segments.

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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 U.S. GAAP guidance.

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 part of research and development expenses. In compliance with our internal policies, certain costs are not allocated to the segments, including impairment, restructuring charges and other related closure costs, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items, strategic and special research and development 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 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. Finally, R&D grants are allocated to our segments proportionally to the incurred R&D expenses on the sponsored projects.

Wafer costs are allocated to the segments based on actual cost. From time to time, with respect to specific technologies, wafer costs are allocated to segments based on market price.

Third Quarter 2016 vs. Second Quarter 2016 and Third Quarter 2015

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

	Three Months Ended					
	October 1, 2016		July 2, 2016		September 26, 2015	
	$ million	% of net revenues	$ million	% of net revenues	$ million	% of net revenues
Net sales	$1,794	99.8 %	$1,698	99.7 %	$1,755	99.5 %
Other revenues	3	0.2	5	0.3	9	0.5
Net revenues	1,797	100.0	1,703	100.0	1,764	100.0
Cost of sales	(1,154)	(64.2)	(1,126)	(66.1)	(1,151)	(65.2)
Gross profit	643	35.8	577	33.9	613	34.8
Selling, general and administrative	(224)	(12.5)	(229)	(13.5)	(218)	(12.4)
Research and development	(318)	(17.7)	(336)	(19.7)	(331)	(18.8)
Other income and expenses, net	18	1.0	28	1.6	38	2.2
Impairment, restructuring charges and other related closure costs	(29)	(1.6)	(12)	(0.7)	(11)	(0.6)
Operating income	90	5.0	28	1.6	91	5.2
Interest expense, net	(5)	(0.3)	(6)	(0.3)	(5)	(0.3)
Income (loss) on equity method investments	(1)	(0.0)	9	0.5	(1	