STMICROELECTRONICS NV
Form 20-F
March 24, 2005

As filed with the Securities and Exchange Commission on March 23, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from___________to

Commission file number: 1-13546

STMicroelectronics N.V.

(Exact name of registrant as specified in its charter)

Not Applicable	**The Netherlands**
(Translation of registrant's name into English)	**(Jurisdiction of incorporation or organization)**

39, Chemin du Champ des Filles
1228 Plan-Les-Ouates
Geneva
Switzerland
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common shares, nominal value €1.04 per share	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

891,908,997 common shares at December 31, 2004

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow:

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report on Form 20-F (the "Form 20-F"), references to "we" and "us" are to STMicroelectronics N.V. together with its consolidated subsidiaries, references to "EU" are to the European Union, references to "€" and the "euro" are to the euro currency of the EU, references to the "United States" and "U.S." are to the United States of America and references to "$" or to "U.S. dollars" are to United States dollars. References to "mm" are to millimeters and references to "nm" are to nanometers.

We have compiled the market share, market size and competitive ranking data in this annual report using statistics and other information obtained from several third-party sources. References in this annual report to published industry data are references to data published by Gartner, Inc., IC Insights Inc., iSuppli, and Databeans, and references to trade association data are references to World Semiconductor Trade Statistics ("WSTS"). Except as otherwise disclosed herein, all references to our market positions in this Form 20-F are based on 2004 revenues according to published industry data. References to our website, at http://www.st.com, do not incorporate by reference into this Form 20-F any information included thereon. Certain industry and technical terms used in this Form 20-F are defined in "Certain Terms".

Various amounts and percentages used in this annual report have been rounded and, accordingly, they may not total 100%. All share data have been adjusted for the 3-for-1 stock split effected in May 2000.

We and our affiliates own or otherwise have rights to the trademarks and trade names, including those mentioned in this annual report, used in conjunction with the marketing and sale of our products.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Form 20-F that are not historical facts, particularly in "Item 3. Key Information—Risk Factors", "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects" and "—Business Outlook", are 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) that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those in such statements due to, among other factors:

- future developments in the world semiconductor market, in particular the actual demand for semiconductor products in the key application markets and from key customers served by our products;
- pricing pressures, losses or curtailments of purchases from key customers as well as inventory adjustments from distributors;
- further changes in the exchange rates between the U.S. dollar and the euro, and between the U.S. dollar and the currencies of the other major countries in which we have our operating infrastructure;
- our ability to develop new products in time to meet market demand, for volume supplies;
- the financial impact of any measures we may decide, if we are unable to load our front-end and/or back-end fabrication facilities ("fabs") at satisfactory levels;
- the ramp-up of volume production in new manufacturing technologies at our fabs;
- the ability of our suppliers to meet our demands for products and competitive pricing;
- smooth transition pursuant to recent organizational changes in our top management and our product groups, as well as their and our ability to adapt our strategy to evolving market conditions;
- the anticipated benefits of research and development alliances and cooperative activities;
-

changes in the economic, social, or political environment, as well as natural events such as severe weather, health risks or earthquakes in the countries in which we and our key customers operate;

- acquisitions which fail to meet business expectations; and

- our ability to obtain required licenses on third party intellectual property.

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Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believe", "may", "will", "should", "would be" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Some of these risk factors are set forth and are discussed in more detail in "Item 3. Key Information—Risk Factors". Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Form 20-F as anticipated, believed or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this Form 20-F to reflect subsequent events or circumstances.

Unfavorable changes in the above or other factors listed under "Item 3. Key Information—Risk Factors" from time to time in our Securities and Exchange Commission ("SEC") filings, could have a material adverse effect on our business and/or financial condition.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers
Not applicable.

Item 2. Offer Statistics and Expected Timetable
Not applicable.

Item 3. Key Information

Selected Financial Data
The table below sets forth our selected consolidated financial data for each of the years in the five-year period ended December 31, 2004. Data for each of the last five years have been derived from our consolidated financial statements. Consolidated audited financial statements for each of the years in the three-year period ended December 31, 2004, including the Notes thereto (collectively, the "Consolidated Financial Statements"), are included in "Item 18. Financial Statements" of this Form 20-F. Data for the three-year period ended December 31, 2004 are derived from the Consolidated Financial Statements included in Item 18 of this Form 20-F, while data for prior periods have been derived from our consolidated financial statements used in such periods.

The following information should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the Consolidated Financial Statements (including the related Notes thereto) included elsewhere in this Form 20-F.

	Year ended December 31,				
	2004(1)	**2003(1)**	**2002(1)**	**2001(1)**	**2000(1)**
	(in millions except shares, per share and ratio data)				
Consolidated Statement of Income Data:					
Net sales	**$8,756**	$7,234	$6,270	$6,304	$7,764
Other revenues	**4**	4	48	53	49
Net revenues	**8,760**	7,238	6,318	6,357	7,813
Cost of sales	**(5,532)**	(4,672)	(4,020)	(4,047)	(4,217)
Gross profit	**3,228**	2,566	2,298	2,310	3,596
Operating expenses:					
Selling, general and administrative	**(947)**	(785)	(648)	(641)	(704)
Research and development(2)	**(1,532)**	(1,238)	(1,022)	(978)	(1,026)
Other income and expenses, net(2)	**10**	(4)	7	(6)	(83)
Impairment, restructuring charges and other related closure costs	**(76)**	(205)	(34)	(346)	—
Total operating expenses	**(2,545)**	(2,232)	(1,697)	(1,971)	(1,813)
Operating income	**683**	334	601	339	1,783
Interest income (expense), net	**(3)**	(52)	(68)	(13)	46
Equity in loss of joint venture	**(4)**	(1)	(11)	(5)	—
Loss on extinguishment of convertible debt	**(4)**	(39)	—	—	—
Income before income taxes and minority interests	**672**	242	522	321	1,829
Income tax benefit (expense)	**(68)**	14	(89)	(61)	(375)

Income before minority interests	**604**	256	433	260	1,454
Minority interests	**(3)**	(3)	(4)	(3)	(2)
Net income	**$601**	$253	$429	$257	$1,452
Earnings per share (basic)[3]	**$0.67**	$0.29	$0.48	$0.29	$1.64
Earnings per share (diluted)[3]	**$0.65**	$0.27	$0.48	$0.29	$1.58
Number of shares used in calculating earnings per share (basic)[3]	**891,192,542**	888,152,244	887,577,627	893,267,868	885,728,493
Number of shares used in calculating earnings per share (diluted)[3]	**935,111,071**	937,091,531	893,036,782	901,982,965	936,059,212

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	Year ended December 31,				
	2004(1)	**2003(1)**	**2002(1)**	**2001(1)**	**2000(1)**
	(in millions except shares, per share and ratio data)				
Consolidated Balance Sheet Data (end of period):					
Cash, cash equivalents and marketable securities(1)	**$1,950**	$2,998	$2,564	$2,444	$2,331
Total assets	**13,800**	13,477	12,004	10,798	11,880
Short-term debt (including current portion of long-term debt)	**191**	151	165	130	142
Long-term debt (excluding current portion)(1)	**1,767**	2,944	2,797	2,772	2,700
Shareholders equity(1)	**9,110**	8,100	6,994	6,075	6,125
Capital stock(4)	**3,074**	3,051	3,008	2,978	2,824
Other Data:					
Ratio of earnings to fixed charges(5)	**16.38**	3.7	5.5	3.8	29.3
Dividends per share(3)	**$0.12**	$0.08	$0.04	$0.04	$0.03
Capital expenditures(6)	**$2,050**	$1,221	$995	$1,700	$3,328
Net cash provided by operating activities	**2,342**	1,920	1,713	2,057	2,423
Depreciation and amortization(6)	**1,837**	1,608	1,382	1,320	1,108
Net debt to total shareholders equity ratio(7)	**0.001**	0.012	0.057	0.075	0.083

(1) On November 16, 2000, we issued $2,146 million initial aggregate principal amount of zero-coupon senior convertible bonds due 2010 (the 2010 Bonds), for net proceeds of $1,458 million; in 2003 we repurchased on the market approximately $1,674 million aggregate principal amount at maturity of 2010 Bonds. During 2004, we completed the repurchase of our 2010 Bonds and repurchased on the market approximately $472 million aggregate principal amount at maturity for a total amount paid of $375 million. In 2001, we redeemed the remaining $52 million of our outstanding Liquid Yield Option Notes due 2008 (our 2008 LYONs) and converted them into common shares in May and June 2001. In 2001, we repurchased 9,400,000 common shares for $233 million, and in 2002 we repurchased an additional 4,000,000 shares for $115 million. We reflected these purchases at cost as a reduction of shareholders equity. The repurchased shares were designated to fund employee stock option plans. In August 2003, we issued $1,332 million principal amount at maturity of zero-coupon senior convertible bonds due 2013 (our 2013 Bonds) with a negative yield of 0.5% that resulted in a higher principal amount at issuance of $1,400 million and net proceeds of $1,386 million. During 2004, we repurchased all of our outstanding Liquid Yield Option Notes due 2009 (our 2009 LYONs) for a total amount of cash paid of $813 million.

(2) Other income and expenses, net includes, among other things, funds received through government agencies for research and development expenses, the cost of new start-ups, foreign currency gains and losses, gains on sales of marketable securities, the costs of certain activities relating to intellectual property and, for periods prior to 2002, goodwill amortization. Our reported research and development expenses are mainly in the areas of product design, technology and development, and do not include marketing design center costs, which are accounted for as selling expenses, or process engineering, pre-production and process-transfer costs, which are accounted for as cost of sales.

(3) All share information has been adjusted to reflect the 3-for-1 stock split effected in May 2000.

(4) Capital stock consists of common stock and capital surplus.

(5) For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income before income taxes and minority interests, plus fixed charges. Fixed charges consist of interest expenses.

(6) Capital expenditures are net of certain funds received through government agencies, the effect of which is to decrease depreciation.

(7) Net debt is composed of short and long-term interest-bearing liabilities and related derivatives less cash and cash equivalents.

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Risk Factors

The semiconductor industry is highly cyclical, and periodic downturns in the semiconductor industry affect our business and results of operations.

The semiconductor industry is highly cyclical and has been subject to significant economic downturns at various times. Downturns are typically characterized by production overcapacity, accelerated erosion of average selling prices, high inventory levels, diminished demand and reduced revenues. Downturns may be the result of industry-specific factors such as excess capacity, product obsolescence, price erosion, evolving standards, changes in end-customer demand, and/or macroeconomic trends impacting the economies of one or more of the worlds major regions: Asia, United States, Europe and Japan.

According to published industry data, worldwide sales of semiconductor products, while generally increasing over the long term, have fluctuated significantly on a yearly basis over the past several years. According to trade association data, sales increased in 1995, 1997, 1999, 2000, 2003 and 2004, but decreased in 1996, 1998 and 2001. For 2000, 2003 and 2004, the increase was approximately 37%, 18% and 28%, respectively, while it decreased by approximately 32% in 2001.

In certain years, the increase in the sale of semiconductor products is driven primarily by an increase in the number of units sold, while industry overcapacity and excess supply over demand worldwide have continued to exercise a downward pressure on average selling prices. In 2004, the market increase was driven by the strong demand particularly in the first half of the year and also by an average selling price increase.

We have experienced revenue volatility and market downturns in the past and may experience them in the future. For example, we expect year-over-year semiconductor revenue growth will substantially decrease in 2005.

Downturns in the semiconductor industry, reduction in demand for end products which incorporate the semiconductor products we supply, or increased competition driven by overcapacity exercising a downward pressure on prices, have in the past, and could in the future, have a significant adverse impact on our results of operations.

Increases in production capacity for semiconductor products may lead to overcapacity, which in turn may lead to plant closures, asset impairments, restructuring charges and inventory write-offs.

Capital investments for semiconductor manufacturing equipment are made both by integrated semiconductor companies like us and by specialist semiconductor foundry companies, which are subcontractors that manufacture semiconductors designed by others.

According to data published by IC Insights Inc. and other industry sources, investments in worldwide semiconductor fabrication capacity totaled approximately $61 billion in 2000, $38 billion in 2001, $27 billion in 2002, $30 billion in 2003, and an estimated $45 billion in 2004, or approximately 30%, 27%, 19%, 18% and an estimated 21%, respectively, of the total available market for such years. The net increase of manufacturing capacity, defined as the difference between capacity additions and capacity reductions pursuant to closures, may exceed demand requirements, leading to over-supply situations, price erosion, and industry downturns. Overcapacity has led us, in recent years, to close manufacturing facilities that used more mature process technologies. In 2001, we closed our 150mm wafer manufacturing facility in Ottawa. In 2002, we closed our 150mm wafer manufacturing facility in Rancho Bernardo, California, and in 2004, we closed our 150mm wafer manufacturing facility in Rennes, France and our back-end facility in Tuas, Singapore. Pursuant to these closures and as a result of some of our more mature fabrication facility capacity being only partially used, we recorded in 2001 a total tangible asset impairment of $200 million, additional charges of approximately $97 million relating to the impairment of purchased technologies, $22 million related to certain investments and approximately $27 million related to restructuring charges. In 2002, we recorded impairment, restructuring charges and related closure costs of $34 million. In 2003, we recorded impairment, restructuring charges and other related closure costs of $205 million in connection with the plan announced in October 2003 to increase our cost competitiveness by restructuring our 150mm fab operations and part of our back-end operations. In 2004, the amount of restructuring charges and other related closure pre-tax costs amounted to $76 million. See Item 5. Operating and Financial Review and ProspectsImpairment Restructuring Changes and Other Related Closure Costs.

Through the period ended December 31, 2004, we have incurred $281 million of the announced approximate $350 million in pre-tax charges associated with the restructuring plan that was defined on October 22, 2003, and which is now expected to be completed by mid-2006.

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In 2005, we decided and announced plans to reduce our Access technology programs for customer premises equipment ("CPE") modem products. This decision made in 2005 could result in potential impairment charges of approximately $60 million in the first quarter of 2005 for intangible assets and goodwill related to the CPE product lines and certain additional restructuring charges to be further estimated.

No assurances can be given that future changes in the market demand for our products, overcapacity, obsolescence in our manufacturing facilities, and market downturns may not require us to test for and record additional impairment and restructuring charges, which may have a material adverse effect on our business, financial condition and results of operations.

Competition in the semiconductor industry is intense, and we may not be able to compete successfully if our product design technologies, process technologies and products do not meet market requirements.

We compete on the basis of a variety of factors, and our success depends on our ability to compete successfully in all of the relevant areas. We compete in different product lines to various degrees on the following basis:

- price
- technical performance
- product features
- product system compatibility
- product design and technology
- product availability
- manufacturing yields
- sales and technical support

Competition in the semiconductor industry as a whole is intense, and if our products are not selected based on any of these factors, our business, financial condition and results of operations would be materially adversely affected.

We also face significant competition in each of our product lines. Like us, many of our competitors offer a large variety of products. Some of our competitors may have greater financial and/or more focused research and development resources than we do. If these competitors substantially increase the resources they devote to developing and marketing products which compete with ours, we may not be able to compete effectively. Any consolidation among our competitors could enhance their product offerings, manufacturing efficiency and financial resources, further strengthening their competitive position.

To improve our financial performance we have recently announced plans to eliminate certain low-volume, non-strategic product families whose return on assets in the current environment does not meet internal targets.

In many of the market segments in which we compete for business, we depend on winning highly competitive selection processes to design products and technologies for use in our customers' equipment and products, and failure to be selected or to execute could materially adversely affect our business in that market segment. Even after we win and begin a product design, a customer may decide to cancel or change its product plans, which could cause us to generate no sales from a product and adversely affect our results of operations.

One of our focuses is on winning competitive bid selection processes, known as "product design wins", to develop products for use in our customers' equipment and products. These selection processes can be lengthy and require us to incur significant design and development expenditures, with no guarantee of winning or generating revenue. Delays in developing new products with anticipated technological advances and failure to win new design projects for customers or in commencing volume shipments of new products may have an adverse effect on our business. In addition, there can be no assurance that new products, if introduced, will gain market acceptance or will not be adversely affected by new technological changes or new product announcements by other competitors that may have greater resources or are more focused than we are. Because we typically focus on only a few customers in a product area, the loss of a design win can sometimes result in our failure to offer a

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generation of a product. This can result in lost sales and could hurt our position in future competitive selection processes because we may be perceived as not being a technology leader.

After winning a product design from one of our customers, we may still experience delays in generating revenue from our products as a result of the lengthy development and design cycle. In addition, a delay or cancellation of a customer's plans could significantly adversely affect our financial results, as we may have incurred significant expense and generated no revenue. Finally, if our customers fail to successfully market and sell their equipment it could materially adversely affect our business, financial condition and results of operations as the demand for our products falls.

Semiconductor and other products we design and manufacture are characterized by rapidly changing technology, and our success depends on our ability to develop and manufacture complex products cost-effectively and to scale.

The market for our products is characterized by rapidly changing technology. Some of our products have average life cycles of less than one year. Therefore, our success is highly dependent upon our ability to develop and manufacture increasingly complex new products quickly and on a cost-effective basis and to scale. Semiconductor design and process technologies are also subject to constant technological improvements and require large expenditures for capital investment, advanced research and technology development. If we experience substantial delays or are unable to develop new design or process technologies, our results of operations could be adversely affected. In certain cases, it may be necessary to incur costs to acquire technology from third parties, which may affect our results of operations and margins without any guarantee of success. We charged $76 million as annual amortization expense on our statement of income in 2004, related to technologies and licenses acquired from third parties through the end of 2004; as of December 31, 2004, the residual value, net of amortization, registered in our balance sheets for these technologies and licenses was $176 million.

In difficult market conditions, our high fixed costs adversely impact our results.

In less favorable industry environments, we are driven to reduce prices in response to competitive pressures and we are also faced with a decline in the utilization rates of our manufacturing facilities due to decreases in product demand. Since the semiconductor industry is characterized by high fixed costs, we are not always able to reduce our total costs in line with revenue declines. Reduced average selling prices for our products therefore adversely affect our results of operations. Furthermore, in periods of reduced customer demand for our products, our fabs do not operate at full capacity and the costs associated with the excess capacity are charged directly to cost of sales. Over the last five years, our gross profit margin has varied from a high of 47.4% in the fourth quarter of 2000 to a low of 31.7% in the fourth quarter of 2001. We cannot guarantee that difficult market conditions will not adversely affect the capacity utilization of our fabs and consequently our future gross margins. We cannot guarantee that increased competition in our core product markets will not lead to further price erosion, lower revenue growth rates and lower margins in the future.

In particular, while the U.S. dollar is our reporting currency, a significant portion of our fixed costs, such as manufacturing labor costs and depreciation charges, selling general and administrative expenses, and research and development expenses, are currently incurred in euros and currencies other than the U.S. dollar, and have significantly increased in 2004 due to the decline of the U.S. dollar, thus reducing our profitability. See "—Our financial results can be adversely affected by fluctuations in exchange rates, principally in the value of the U.S. dollar" and "Item 5. Operating and Financial Review and Prospects—Impact of Changes in Exchange Rates".

In order to address our fixed costs, we have recently announced our decision to accelerate cost-reduction initiatives, including a more selective process in dedicating capacity to new orders, with priority to high margin products; optimization of the product and production mix in memory; consolidation of certain central function activities to control overhead; and launching an aggressive cost savings program focused on purchasing. There is no assurance that the aforementioned initiatives will be successful, and that our fixed costs will not remain high, particularly in the event of a further decline in the value of the U.S. dollar versus the euro.

Our financial results can be adversely affected by fluctuations in exchange rates, principally in the value of the U.S. dollar.

A significant variation of the value of the U.S. dollar against the principal currencies which have a material impact on us (primarily the euro, but also certain Asian and other currencies of countries where we have operations) could result in a favorable impact on our net income in the case of an appreciation of the U.S. dollar, or a negative impact on our net income if the U.S. dollar depreciates relative to these currencies. Certain

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significant costs incurred by us, such as manufacturing labor costs and depreciation charges, selling, general and administrative expenses, and research and development expenses, are incurred in the currencies of the jurisdictions in which our operations are located. Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the major part of our revenues, while, more importantly, we incur the majority of our costs in currencies other than the U.S. dollar. In 2004, the U.S. dollar depreciated in value significantly, in particular against the euro, causing us to report higher expenses, and negatively impacting both our gross margin and operating income. Our Consolidated Financial Statements for 2004 include income and expense items translated at the average rate for the period. The average rate of the euro to the U.S. dollar was €1.00 for $1.236 in 2004 and $1.125 in 2003; see Item 5. Operating and Financial Review and ProspectsImpact of Changes in Exchange Rates and Item 11. Quantitative and Qualitative Disclosures About Market Risk. The continued decline of the U.S. dollar compared to the other major currencies that affect our operations would negatively impact our expenses, margins and profitability, especially if we are unable to balance or shift our euro-denominated costs to other currency areas or to U.S. dollars. Any such actions may not be immediately effective, could prove costly and their implementation could prove demanding on our management resources. In order to reduce the exposure of our financial results to the fluctuations in exchange rates, our principal strategy has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of purchases from our suppliers denominated in U.S. dollars, and to reduce the weight of the other costs, including labor costs and depreciation, denominated in euros and in other currencies. In order to further reduce the exposure to U.S. dollar exchange rate