UNITED STATES STEEL CORP
Form 10-Q
October 26, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2010

Or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	1-16811 (Commission File Number)	25-1897152 (IRS Employer Identification No.)

600 Grant Street, Pittsburgh, PA (Address of principal executive offices)	15219-2800 (Zip Code)

(412) 433-1121

(Registrant s telephone number,

including area code)

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 Ö No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes Ö No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Ö	Accelerated filer __	Non-accelerated filer __ (Do not check if a smaller reporting company)	Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes __ No Ö

Common stock outstanding at October 21, 2010 143,615,072 shares

Table of Contents

INDEX

Table of Contents

UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(Dollars in millions, except per share amounts)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales:				
Net sales	**$ 4,221**	$ 2,571	**$ 12,119**	$ 7,167
Net sales to related parties *(Note 21)*	**276**	246	**955**	527
Total	**4,497**	2,817	**13,074**	7,694
Operating expenses (income):				
Cost of sales (excludes items shown below)	**4,321**	2,902	**12,144**	8,249
Selling, general and administrative expenses	**148**	163	**448**	460
Depreciation, depletion and amortization *(Note 6)*	**163**	167	**490**	484
(Income) loss from investees	**(9)**	1	**(13)**	32
Net loss (gain) on disposal of assets *(Notes 4 and 22)*	**14**	(1)	**9**	(134)
Other income, net *(Note 8)*	**(2)**	(3)	**(7)**	(42)
Total	**4,635**	3,229	**13,071**	9,049
(Loss) income from operations	**(138)**	(412)	**3**	(1,355)
Interest expense	**50**	42	**145**	116
Interest income	**(1)**	(2)	**(5)**	(5)
Other financial (income) costs *(Note 9)*	**(127)**	(15)	**40**	(6)
Net interest and other financial (income) costs	**(78)**	25	**180**	105
Loss before income taxes	**(60)**	(437)	**(177)**	(1,460)
Income tax (benefit) provision *(Note 11)*	**(9)**	(130)	**56**	(322)
Net loss	**(51)**	(307)	**(233)**	(1,138)
Less: Net loss attributable to noncontrolling interests		(4)		(4)
Net loss attributable to United States Steel Corporation	**$ (51)**	$ (303)	**$ (233)**	$ (1,134)
Loss per common share *(Note 12)*:				
Net loss per share attributable to United States Steel Corporation shareholders:				
- Basic	**$ (0.35)**	$ (2.11)	**$ (1.62)**	$ (8.62)
- Diluted	**$ (0.35)**	$ (2.11)	**$ (1.62)**	$ (8.62)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

UNITED STATES STEEL CORPORATION

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 643**	$ 1,218
Receivables, less allowance of $42 and $39	**2,200**	1,423
Receivables from related parties *(Note 21)*	**122**	144
Inventories *(Note 13)*	**2,375**	1,679
Income tax receivable *(Note 11)*	**45**	214
Deferred income tax benefits *(Note 11)*	**303**	299
Other current assets	**179**	38
Total current assets	**5,867**	5,015
Property, plant and equipment	**15,807**	16,030
Less accumulated depreciation and depletion	**9,417**	9,210
Total property, plant and equipment, net	**6,390**	6,820
Investments and long-term receivables, less allowance of $23 and $22	**674**	695
Intangibles net *(Note 6)*	**275**	281
Goodwill *(Note 6)*	**1,733**	1,725
Assets held for sale *(Note 5)*	**33**	33
Deferred income tax benefits *(Note 11)*	**401**	535
Other noncurrent assets	**280**	318
Total assets	**$ 15,653**	$ 15,422
Liabilities		
Current liabilities:		
Accounts payable	**$ 2,014**	$ 1,396
Accounts payable to related parties *(Note 21)*	**38**	61
Bank checks outstanding	**84**	23
Payroll and benefits payable	**731**	854
Accrued taxes *(Note 11)*	**112**	89
Accrued interest	**76**	32
Short-term debt and current maturities of long-term debt *(Note 15)*	**20**	19
Total current liabilities	**3,075**	2,474
Long-term debt, less unamortized discount *(Note 15)*	**3,639**	3,345
Employee benefits	**3,937**	4,143
Deferred credits and other noncurrent liabilities	**483**	481
Total liabilities	**11,134**	10,443
Contingencies and commitments *(Note 22)*		
Stockholders Equity *(Note 20)*:		
Common stock (150,925,911 shares issued) *(Note 12)*	**151**	151
Treasury stock, at cost (7,312,833 and 7,575,724 shares)	**(584)**	(608)
Additional paid-in capital	**3,645**	3,652

Retained earnings	**3,953**	4,209
Accumulated other comprehensive loss	**(2,647)**	(2,728)
Total United States Steel Corporation stockholders equity	**4,518**	4,676
Noncontrolling interests *(Note 2)*	**1**	303
Total liabilities and stockholders equity	**$ 15,653**	$ 15,422

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Dollars in millions)	**Nine Months Ended September 30, 2010**	**2009**
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net loss	**$ (233)**	$ (1,138)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization *(Note 6)*	**490**	484
Provision for doubtful accounts	**8**	4
Pensions and other postretirement benefits	**(183)**	(160)
Deferred income taxes	**20**	(258)
Net loss (gain) on disposal of assets *(Notes 4 and 22)*	**9**	(134)
Distributions received, net of equity investees income	**(8)**	43
Changes in:		
Current receivables	**(767)**	884
Inventories	**(712)**	865
Current accounts payable and accrued expenses	**689**	(179)
Income taxes receivable/payable *(Note 11)*	**107**	(271)
Bank checks outstanding	**62**	(10)
Foreign currency translation of operating items	**-**	(122)
All other, net	**40**	110
Net cash (used in) provided by operating activities	**(478)**	118
Investing activities:		
Capital expenditures	**(426)**	(323)
Capital expenditures variable interest entities *(Note 17)*	**-**	(126)
Disposal of assets	**103**	340
Restricted cash, net	**(6)**	(59)
Investments, net	**(29)**	(42)
Net cash used in investing activities	**(358)**	(210)
Financing activities:		
Revolving credit facilities borrowings	**25**	-
repayments	**(297)**	-
Issuance of long-term debt, net of financing costs	**669**	839
Repayment of long-term debt	**(105)**	(671)
Common stock issued	**3**	667
Distributions from noncontrolling interests	**-**	127
Dividends paid	**(22)**	(49)
Net cash provided by financing activities	**273**	913
Effect of exchange rate changes on cash	**(12)**	(2)

Net (decrease) increase in cash and cash equivalents	**(575)**	819
Cash and cash equivalents at beginning of year	**1,218**	724
Cash and cash equivalents at end of period	**$ 643**	$ 1,543

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

United States Steel Corporation (U. S. Steel) produces and sells steel mill products, including flat-rolled and tubular products, in North America and Central Europe. Operations in North America also include transportation services (railroad and barge operations), real estate operations and engineering consulting services.

The year-end consolidated balance sheet data was derived from audited statements but does not include all disclosures required for complete financial statements by accounting principles generally accepted in the United States. The other information in these financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Additional information is contained in the United States Steel Corporation Annual Report on Form 10-K for the year ended December 31, 2009.

2. New Accounting Standards

Accounting for variable interest entities

On January 1, 2010, U. S. Steel adopted updates to Accounting Standards Codification (ASC) Topic 810 related to improvements to financial reporting by enterprises involved with variable interest entities. The updates to ASC Topic 810 include a criterion that requires the primary beneficiary to have the power to direct the activities that most significantly impact the economic performance of the variable interest entity. Due to the addition of this criterion, the adoption resulted in the deconsolidation of Gateway Energy & Coke Company, LLC and Daniel Ross Bridge, LLC from our consolidated financial statements on a prospective basis. The primary impact from the adoption of the updates to ASC Topic 810 was the removal of approximately $300 million of net assets, comprised mainly of property, plant and equipment, from our consolidated balance sheet. These net assets were entirely offset by noncontrolling interest, which was also removed upon adoption. There was an immaterial impact to our consolidated statement of operations. See note 17 for further details of these entities.

Accounting for transfers of financial assets

On January 1, 2010, U. S. Steel adopted updates to ASC Topic 860 related to the accounting for transfers of financial assets. As a result of the adoption, any transfers of receivables pursuant to our Receivables Purchase Agreement (RPA) no longer qualify as a sale and are now accounted for as secured borrowing transactions. Accordingly, receivable transfers as well as the related borrowings for equal amounts are required to be reflected on the consolidated balance sheet and the proceeds and repurchases related to the securitization program will be included in cash flows from financing activities in the statement of cash flows. U. S. Steel did not have any transactions under the RPA during the first nine months of 2010 or 2009. See note 15 for further details of our accounts receivable facility.

3. Segment Information

U. S. Steel has three reportable segments: Flat-rolled Products (Flat-rolled), U. S. Steel Europe (USSE), and Tubular Products (Tubular). The results of several other operating segments that do not constitute reportable segments are combined and disclosed in the Other Businesses category.

Table of Contents

The chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being income from operations. Income from operations for reportable segments and Other Businesses does not include net interest and other financial costs, income taxes, benefit expenses for current retirees and certain other items that management believes are not indicative of future results. Information on segment assets is not disclosed, as the chief operating decision maker does not review it.

The accounting principles applied at the operating segment level in determining income from operations are generally the same as those applied at the consolidated financial statement level. The transfer value for steel rounds from Flat-rolled to Tubular is based on cost. All other intersegment sales and transfers are accounted for at market-based prices and are eliminated at the corporate consolidation level. Corporate-level selling, general and administrative expenses and costs related to certain former businesses are allocated to the reportable segments and Other Businesses based on measures of activity that management believes are reasonable.

The results of segment operations for the three months ended September 30, 2010 and 2009 are:

(In millions) **Third Quarter 2010**	**Customer Sales**	**Intersegment Sales**	**Net Sales**	**Income (loss) from investees**	**Income (loss) from operations**
Flat-rolled	**$ 2,763**	**$ 255**	**$ 3,018**	**$ 11**	**$ (174)**
USSE	**1,034**	**-**	**1,034**	**-**	**(25)**
Tubular	**680**	**1**	**681**	**(2)**	**112**
Total reportable segments	**4,477**	**256**	**4,733**	**9**	**(87)**
Other Businesses	**20**	**69**	**89**	**-**	**7**
Reconciling Items and Eliminations	**-**	**(325)**	**(325)**	**-**	**(58)**
Total	**$ 4,497**	**$ -**	**$ 4,497**	**$ 9**	**$ (138)**
Third Quarter 2009					
Flat-rolled	$ 1,745	$ 83	$ 1,828	$ 2	$ (370)
USSE	822	1	823	-	7
Tubular	234	-	234	(3)	(21)
Total reportable segments	2,801	84	2,885	(1)	(384)
Other Businesses	16	70	86	-	5
Reconciling Items and Eliminations	-	(154)	(154)	-	(33)
Total	$ 2,817	$ -	$ 2,817	$ (1)	$ (412)

Table of Contents

The results of segment operations for the nine months ended September 30, 2010 and 2009 are:

(In millions) First Nine Months 2010	Customer Sales	Intersegment Sales	Net Sales	Income (loss) from investees	Income (loss) from operations
Flat-rolled	**$ 8,181**	**$ 777**	**$ 8,958**	**$ 15**	**$ (156)**
USSE	**2,983**	**46**	**3,029**	**1**	**6**
Tubular	**1,804**	**4**	**1,808**	**(3)**	**253**
Total reportable segments	**12,968**	**827**	**13,795**	**13**	**103**
Other Businesses	**106**	**264**	**370**	**-**	**45**
Reconciling Items and Eliminations	**-**	**(1,091)**	**(1,091)**	**-**	**(145)**
Total	**$ 13,074**	**$ -**	**$ 13,074**	**$ 13**	**$ 3**
First Nine Months 2009					
Flat-rolled	$ 4,648	$ 162	$ 4,810	$ (29)	$ (1,154)
USSE	2,088	3	2,091	-	(205)
Tubular	906	3	909	(3)	18
Total reportable segments	7,642	168	7,810	(32)	(1,341)
Other Businesses	52	153	205	-	(5)
Reconciling Items and Eliminations	-	(321)	(321)	-	(9)
Total	$ 7,694	$ -	$ 7,694	$ (32)	$ (1,355)

The following is a schedule of reconciling items to (loss) income from operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Items not allocated to segments:				
Retiree benefit expenses	**$ (43)**	$ (33)	**$ (130)**	$ (99)
Other items not allocated to segments:				
Federal excise tax refund *(Note 8)*	**-**	-	**-**	34
Net (loss) gain on the sale of assets *(Note 4)*	**(15)**	-	**(15)**	97
Workforce reduction charges *(Note 7)*	**-**	-	**-**	(86)
Litigation reserve [(a)]	**-**	-	**-**	45
Total other items not allocated to segments	**(15)**	-	**(15)**	90
Total reconciling items	**$ (58)**	$ (33)	**$ (145)**	$ (9)

[(a)] A litigation reserve of $45 million involving a rate escalation provision in a U. S. Steel power supply contract was established in the first quarter of 2008 as a result of a court ruling and was subsequently reversed in the second quarter of 2009 as that decision was overturned.

4. Acquisitions and Dispositions

Fintube Technologies

On September 1, 2010, U. S. Steel completed the sale of a majority of the operating assets of Fintube Technologies (Fintube) for approximately $22 million. Fintube, a non-core business to

Table of Contents

U. S. Steel, has operations in Tulsa, Oklahoma and Monterrey, Mexico where it manufactures specialty tubular products used in heat recovery technology applications. As a result of the transaction, U. S. Steel recognized a pretax loss of approximately $15 million in the third quarter 2010.

Wabush Mines Joint Venture

On February 1, 2010, U. S. Steel Canada Inc. (USSC) completed the previously announced sale of its 44.6 percent interest in the Wabush Mines Joint Venture (Wabush) for approximately $60 million. Wabush owns and operates iron ore mining and pellet facilities in Newfoundland and Labrador and Quebec, Canada. U. S. Steel recognized an immaterial loss on the sale.

Z-Line Company

As a result of the minority owner s exercise of a put option, U. S. Steel acquired the minority owner s 40 percent ownership interest in Z-Line Company (Z-Line), a partnership, on December 23, 2009 for C$26 million (approximately $24 million). Z-line, which owned and operated a galvanizing/galvannealing line, has subsequently been dissolved and the facility is now operated as part of our Hamilton Works located in Ontario, Canada. The acquisition has been accounted for in accordance with ASC Topic 810, Consolidations.

Elgin, Joliet and Eastern Railway Company

On January 31, 2009, U. S. Steel completed the previously announced sale of the majority of the operating assets of Elgin, Joliet and Eastern Railway Company (EJ&E) to Canadian National Railway Company (CN) for approximately $300 million. U. S. Steel retained railroad assets, equipment, and employees that support the Gary Works. As a result of the transaction, U. S. Steel recognized a pretax net gain of approximately $97 million, net of a $10 million pension curtailment charge (see Note 7), in the first quarter 2009.

5. Assets Held for Sale

On April 28, 2010, USSC announced that it had entered into an agreement to sell its bar mill and bloom and billet mill located at Hamilton Works. Completion of the transaction is subject to customary closing conditions, including regulatory approvals. The transaction is scheduled to close by the end of 2010. As of September 30, 2010 and December 31, 2009, U. S. Steel had classified these assets as held for sale in accordance with ASC Topic 360 on impairment and disposal of long-lived assets. We expect an immaterial financial statement impact from the transaction.

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2010 are as follows:

	Flat-rolled Segment	USSE Segment	Tubular Segment	Total
Balance at December 31, 2009	$ 876	$ -	$ 849	$ 1,725
Goodwill from acquisitions	**-**	**4**	**-**	**4**
Impact of Dispositions *(Note 4)*	**-**	**-**	**(15)**	**(15)**
Currency translation	**19**	**-**	**-**	**19**
Balance at September 30, 2010	**$ 895**	**$ 4**	**$ 834**	