UNITED STATES STEEL CORP
Form 10-Q
July 30, 2013

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 June 30, 2013
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	1-16811	25-1897152
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

600 Grant Street, Pittsburgh, PA	15219-2800
(Address of principal executive offices)	(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 P 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 [P] 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 P	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 P
Common stock outstanding at July 25, 2013 – 144,657,396 shares

INDEX

UNITED STATES STEEL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

(Dollars in millions, except per share amounts)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Net sales:				
Net sales	$4,119	$4,695	$8,436	$9,528
Net sales to related parties (Note 19)	310	322	588	661
Total	4,429	5,017	9,024	10,189
Operating expenses (income):				
Cost of sales (excludes items shown below)	4,114	4,485	8,356	9,118
Selling, general and administrative expenses	151	165	296	331
Depreciation, depletion and amortization	170	164	341	327
Loss (income) from investees	3	(44)	(5)	(68)
Net (gain) loss on disposal of assets (Note 4)	(1)	—	—	309
Other (income) expense, net	(1)	(6)	5	(8)
Total	4,436	4,764	8,993	10,009
(Loss) income from operations	(7)	253	31	180
Interest expense	58	66	143	115
Interest income	(1)	(1)	(2)	(5)
Other financial costs	11	17	31	22
Net interest and other financial costs (Note 7)	68	82	172	132
(Loss) income before income taxes and noncontrolling interests	(75)	171	(141)	48
Income tax provision (Note 9)	3	70	10	166
Net (loss) income	(78)	101	(151)	(118)
Less: Net income attributable to noncontrolling interests	—	—	—	—
Net (loss) income attributable to United States Steel Corporation	$(78)	$101	$(151)	$(118)
Earnings per common share (Note 11):				
Earnings per share attributable to United States Steel Corporation shareholders:				
-Basic	$(0.54)	$0.70	$(1.05)	$(0.82)
-Diluted	$(0.54)	$0.62	$(1.05)	$(0.82)

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

UNITED STATES STEEL CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Net (loss) income	$(78)	$101	$(151)	$(118)
Other comprehensive income (loss), net of tax:				
Changes in foreign currency translation adjustments	19	(91)	(18)	16
Changes in pension and other employee benefit accounts	69	66	138	136
Total other comprehensive income (loss), net of tax	88	(25)	120	152
Comprehensive income (loss) including noncontrolling interest	10	76	(31)	34
Comprehensive loss attributable to noncontrolling interest	—	—	—	—
Comprehensive income (loss) attributable to United States Steel Corporation	$10	$76	$(31)	$34

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

UNITED STATES STEEL CORPORATION
CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$767	$570
Receivables, less allowance of $54 and $55	1,971	1,872
Receivables from related parties (Note 19)	171	218
Inventories (Note 12)	2,269	2,503
Deferred income tax benefits (Note 9)	167	171
Other current assets	71	40
Total current assets	5,416	5,374
Property, plant and equipment	16,902	16,906
Less accumulated depreciation and depletion	10,746	10,498
Total property, plant and equipment, net	6,156	6,408
Investments and long-term receivables, less allowance of $3 in both periods	621	609
Intangibles – net (Note 5)	277	253
Goodwill (Note 5)	1,790	1,822
Deferred income tax benefits (Note 9)	306	424
Other noncurrent assets	298	327
Total assets	$14,864	$15,217
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	$1,650	$1,722
Accounts payable to related parties (Note 19)	93	78
Bank checks outstanding	47	15
Payroll and benefits payable	950	977
Accrued taxes	151	146
Accrued interest	55	50
Short-term debt and current maturities of long-term debt (Note 14)	322	2
Total current liabilities	3,268	2,990
Long-term debt, less unamortized discount (Note 14)	3,611	3,936
Employee benefits	4,122	4,416
Deferred credits and other noncurrent liabilities	389	397
Total liabilities	11,390	11,739
Contingencies and commitments (Note 20)		
Stockholders' Equity (Note 17):		
Common stock (150,925,911 shares issued) (Note 11)	151	151
Treasury stock, at cost (6,276,682 and 6,643,553 shares)	(482)	(521)
Additional paid-in capital	3,656	3,652
Retained earnings	3,296	3,463
Accumulated other comprehensive loss (Note 18)	(3,148)	(3,268)
Total United States Steel Corporation stockholders' equity	3,473	3,477
Noncontrolling interests	1	1
Total liabilities and stockholders' equity	$14,864	$15,217

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

UNITED STATES STEEL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
(Dollars in millions)	2013	2012
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net loss	$(151)	$(118)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	341	327
Provision for doubtful accounts	(1)	(3)
Pensions and other postretirement benefits	10	(111)
Deferred income taxes	(2)	107
Net loss on disposal of assets (Note 4)	—	309
Currency remeasurement loss	21	6
Distributions received, net of equity investees income	4	(7)
Changes in:		
Current receivables	(64)	(159)
Inventories	204	252
Current accounts payable and accrued expenses	(10)	158
Income taxes receivable/payable	(3)	22
Bank checks outstanding	32	31
All other, net	3	47
Net cash provided by operating activities	384	861
Investing activities:		
Capital expenditures	(221)	(397)
Acquisition of intangible assets (Note 5)	(12)	—
Disposal of assets	1	133
Change in restricted cash, net	34	10
Investments, net	(6)	(1)
Net cash used in investing activities	(204)	(255)
Financing activities:		
Revolving credit facilities – borrowings	—	523
– repayments	—	(653)
Receivables Purchase Agreement payments	—	(380)
Issuance of long-term debt, net of financing costs	576	392
Repayment of long-term debt	(542)	(315)
Dividends paid	(14)	(14)
Net cash provided by (used in) financing activities	20	(447)
Effect of exchange rate changes on cash	(3)	(2)
Net increase in cash and cash equivalents	197	157
Cash and cash equivalents at beginning of year	570	408
Cash and cash equivalents at end of period	$767	$565

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

-4-

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) and real estate operations.

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 of America (U.S. GAAP). 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, 2012 which should be read in conjunction with these financial statements.

Reclassifications

Certain reclassifications of prior years' data have been made to conform to the current year presentation.

2. New Accounting Standards

On February 5, 2013, the FASB issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). ASU 2013-02 requires companies to present information about reclassification adjustments from accumulated other comprehensive income, including the amount of the reclassification and the income statement line items affected by the reclassification. The information must be presented in the financial statements in a single note or on the face of the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012. U. S. Steel adopted ASU 2013-02 effective January 1, 2013 and has provided the required disclosures in Note 18.

On July 18, 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 requires the netting of unrecognized tax benefits (UTBs) against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. UTBs are required to be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013. U. S. Steel early adopted ASU 2013-11 in the second quarter of 2013 on a prospective basis which resulted in a reduction of approximately $35 million in the presentation of our noncurrent deferred tax assets and unrecognized tax benefits (within deferred credits and other noncurrent liabilities).

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. Prior to January 31, 2012, our USSE reportable segment consisted of U. S. Steel Košice (USSK) and U. S. Steel Serbia (USSS). On January 31, 2012, U. S. Steel sold USSS (see Note 4). The USSE segment information subsequent to January 31, 2012 reflects the results of USSK only.

The chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being income (loss) from operations. Income (loss) from operations for reportable segments and Other Businesses does not include net interest and other financial costs (income), income taxes, postretirement benefit expenses (other than service cost and amortization of prior service cost for active employees) and certain other items that management believes are not indicative of future results. Information on segment assets is not disclosed, as it is not reviewed by the chief operating decision maker.

The accounting principles applied at the operating segment level in determining income (loss) 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 June 30, 2013 and 2012 are:

(In millions) Second Quarter 2013	Customer Sales	Intersegment Sales	Net Sales	Income (loss) from investees	Income (loss) from operations
Flat-rolled	$2,876	$326	$3,202	$3	$(51)
USSE	778	1	779	—	10
Tubular	709	1	710	(5)	45
Total reportable segments	4,363	328	4,691	(2)	4
Other Businesses	66	35	101	(1)	43
Reconciling Items and Eliminations	—	(363)	(363)	—	(54)
Total	$4,429	$—	$4,429	$(3)	$(7)
Second Quarter 2012					
Flat-rolled	$3,356	$539	$3,895	$45	$177
USSE	763	26	789	—	34
Tubular	871	2	873	—	103
Total reportable segments	4,990	567	5,557	45	314
Other Businesses	27	36	63	(1)	16
Reconciling Items and Eliminations	—	(603)	(603)	—	(77)
Total	$5,017	$—	$5,017	$44	$253

The results of segment operations for the six months ended June 30, 2013 and 2012 are:

(In millions) First Six Months 2013	Customer Sales	Intersegment Sales	Net Sales	Income (loss) from investees	Income (loss) from operations
Flat-rolled	$5,979	$661	$6,640	$13	$(64)
USSE	1,561	2	1,563	—	48
Tubular	1,395	2	1,397	(6)	109
Total reportable segments	8,935	665	9,600	7	93
Other Businesses	89	69	158	(2)	48
Reconciling Items and Eliminations	—	(734)	(734)	—	(110)
Total	$9,024	$—	$9,024	$5	$31
First Six Months 2012					
Flat-rolled	$6,656	$990	$7,646	$73	$360
USSE	1,578	75	1,653	—	—
Tubular	1,817	3	1,820	(3)	232
Total reportable segments	10,051	1,068	11,119	70	592
Other Businesses	138	92	230	(2)	33
Reconciling Items and Eliminations	—	(1,160)	(1,160)	—	(445)
Total	$10,189	$—	$10,189	$68	$180

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

(In millions)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Items not allocated to segments:				
Postretirement benefit expense [(a)]	$(54)	$(77)	$(110)	$(154)
Other items not allocated to segments:				
Net loss on the sale of assets (Note 4)	$—	$—	$—	$(310)
Property tax settlements	—	—	—	19
Total other items not allocated to segments	—	—	—	(291)
Total reconciling items	$(54)	$(77)	$(110)	$(445)

[(a)] Consists of the net periodic benefit cost elements, other than service cost and amortization of prior service cost for active employees, associated with our pension, retiree health care and life insurance benefit plans.

4. Dispositions

The net loss on disposal of assets for the first six months of 2012 primarily relates to the following dispositions:

U. S. Steel Serbia

On January 31, 2012, U. S. Steel sold USSS to the Republic of Serbia for a purchase price of one dollar. In addition, USSK received a $40 million payment for certain intercompany balances owed by USSS for raw materials and support services. As a result of this transaction, U. S. Steel recorded a total non-cash pretax charge of $399 million.

Birmingham Southern Railroad Company

On February 1, 2012, U. S. Steel completed the sale of the majority of the operating assets of Birmingham Southern Railroad Company and the Port Birmingham Terminal. As a result of the transaction, U. S. Steel recorded a pretax gain of $89 million.

5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment for the six months ended June 30, 2013 are as follows:

	Flat-rolled Segment	USSE Segment	Tubular Segment	Total
Balance at December 31, 2012	$984	$4	$834	$1,822
Goodwill from acquisitions	—	—	3	$3
Currency translation	(35)	—	—	(35)
Balance at June 30, 2013	$949	$4	$837	$1,790

Goodwill represents the excess of the cost over the fair value of acquired identifiable tangible and intangible assets and liabilities assumed from businesses acquired. We have two reporting units that include nearly all of our goodwill: our Flat-rolled reporting unit and our Texas Operations reporting unit, which is part of our Tubular operating segment. Goodwill is tested for impairment at the reporting unit level annually in the third quarter and whenever events or circumstances indicate that the carrying value may not be recoverable. U. S. Steel completed its annual goodwill impairment evaluation, by performing a qualitative assessment, during the third quarter of 2012 and determined, on the basis of a number of economic, cost, market and other qualitative factors, that there was no indication of goodwill impairment for any of the reporting units. Goodwill impairment tests in prior years also indicated that goodwill was not impaired for any reporting unit.

Amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives and are detailed below:

(In millions)	Useful Lives	As of June 30, 2013 Gross Carrying Amount	Accumulated Amortization	Net Amount	As of December 31, 2012 Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	22-23 Years	$216	$58	$158	$221	$54	$167
Other	2-20 Years	23	12	11	22	11	11
Total amortizable intangible assets		$239	$70	$169	$243	$65	$178

The carrying amount of acquired water rights with indefinite lives as of June 30, 2013 and December 31, 2012 totaled $75 million. The water rights are tested for impairment annually in the third quarter. U. S. Steel completed its annual evaluation during the third quarter of 2012 by performing a qualitative assessment which indicated that the water rights were not impaired. Prior year impairment tests also indicated that the water rights were not impaired.

During the second quarter of 2013, U. S. Steel acquired indefinite-lived intangible assets for $12 million and entered into an agreement to make future payments contingent upon certain factors. As of June 30, 2013, U. S. Steel recorded a liability of $24 million to reflect the fair value of the contingent consideration. The aggregate purchase price was $36 million, and U. S. Steel allocated $33 million to indefinite-lived intangible assets, based upon their estimated fair value, and the remaining $3 million to goodwill. The liability for contingent consideration will be reassessed each quarter. The maximum potential liability for contingent consideration is $53 million.

Amortization expense was $2 million in both the three months ended June 30, 2013 and 2012 and was $5 million in both the six months ended June 30, 2013 and 2012. The estimated future amortization expense of identifiable intangible assets during the next five years is $6 million for the remaining portion of 2013 and $11 million each year from 2014 to 2017.

6. Pensions and Other Benefits

The following table reflects the components of net periodic benefit cost for the three months ended June 30, 2013 and 2012:

	Pension Benefits		Other Benefits	
(In millions)	2013	2012	2013	2012
Service cost	$32	$30	$7	$8
Interest cost	102	117	36	46
Expected return on plan assets	(153)	(153)	(32)	(29)
Amortization of prior service cost	6	4	(4)	5
Amortization of actuarial net loss	91	88	7	—
Net periodic benefit cost, excluding below	78	86	14	30
Multiemployer plans	18	17	—	—
Net periodic benefit cost	$96	$103	$14	$30

The following table reflects the components of net periodic benefit cost for the six months ended June 30, 2013 and 2012:

	Pension Benefits		Other Benefits	
(In millions)	2013	2012	2013	2012
Service cost	$64	$59	$14	$15
Interest cost	203	233	71	91
Expected return on plan assets	(307)	(306)	(65)	(57)
Amortization of prior service cost	12	9	(7)	11
Amortization of actuarial net loss	183	176	15	—
Net periodic benefit cost, excluding below	155	171	28	60
Multiemployer plans	36	34	—	—
Settlement, termination and curtailment gains	—	(2)	—	—
Net periodic benefit cost	$191	$203	$28	$60

Employer Contributions

During the first six months of 2013, U. S. Steel made $45 million in required cash contributions to the USSC pension plans, cash payments of $36 million to the Steelworkers' Pension Trust and $4 million of pension payments not funded by trusts.

During the first six months of 2013, cash payments of $113 million were made for other postretirement benefit payments not funded by trusts. In addition, U. S. Steel made a required contribution of $10 million in the first six months of 2013 to our trust for represented retiree health care and life insurance benefits.

Company contributions to defined contribution plans totaled $11 million in both the three months ended June 30, 2013 and 2012. Company contributions to defined contribution plans totaled $22 million and $21 million for the six months ended June 30, 2013 and 2012, respectively.

Pension Funding

In January 2013, U. S. Steel's Board of Directors authorized voluntary contributions to U. S. Steel's trusts for pensions and other benefits of up to $300 million through the end of 2014. U. S. Steel made voluntary contributions to our main U.S. defined benefit plan of $140 million in 2012. U. S. Steel will likely make voluntary contributions of similar amounts in future periods in order to mitigate potentially larger mandatory contributions in later years. Assuming future asset performance consistent with our expected long-term earnings rate assumption of 7.75%, we anticipate that the interest rate formula changes in the pension stabilization legislation enacted in 2012 will allow us to continue to make voluntary contributions of approximately $140 million per year

through 2015 before we could be required to contribute more than that amount should the current low interest rate environment continue.

7. Net Interest and Other Financial Costs

Net interest and other financial costs includes interest expense, interest income, financing costs, derivatives gains and losses and foreign currency remeasurement gains and losses. Foreign currency gains and losses are a result of foreign currency denominated assets and liabilities that require remeasurement. During the three months ended June 30, 2013 and 2012, net foreign currency remeasurement losses of $3 million and $10 million, respectively, were recorded in other financial costs. During the six months ended June 30, 2013 and 2012, net foreign currency remeasurement losses of $12 million and $8 million, respectively, were recorded in other financial costs.

For the six months ended June 30, 2013, net interest and other financial costs also includes a charge of $34 million related to repurchases of approximately $542 million aggregate principal amount of our 4.00% Senior Convertible Notes due May 15, 2014 (see Note 14 for further details). For the three and six months ended June 30, 2012, net interest and other financial costs also includes a charge of $18 million associated with the April 2012 redemption of all of our $300 million Senior Notes due June 1, 2013.

See Note 13 for additional information on U. S. Steel’s use of derivatives to mitigate its foreign currency exchange rate exposure.

8. Stock-Based Compensation Plans

U. S. Steel has outstanding stock-based compensation awards that were granted by the Compensation & Organization Committee of the Board of Directors (the Committee) under several stock-based employee compensation plans, which are more fully described in Note 12 of the United States Steel Corporation 2012 Annual Report on Form 10-K. An aggregate of 15,450,000 shares of U. S. Steel common stock may be issued under the plans. As of June 30, 2013, 1,662,363 shares are available for future grants.

U. S. Steel recognized pre-tax stock-based compensation cost in the amount of $9 million and $10 million in the three months ended June 30, 2013 and 2012, respectively, and $19 million in both the first six months of 2013 and 2012.

Recent grants of stock-based compensation consist of stock options, restricted stock units and performance awards. Historically, the Committee has granted traditional stock options with an exercise price equal to the stock price on the date of grant. For the May 2013 grant, premium-priced stock options with an exercise price of $25 per share were awarded to executives in lieu of traditional stock options. The following table is a general summary of the awards made under the Plan.

	May 2013 Grant		May 2012 Grant	
Grant Details	Shares [(a)]	Fair Value [(b)]	Shares [(a)]	Fair Value [(b)]
Executive Stock Options	483,900	$8.50	456,070	$11.95
Non-executive Stock Options	970,640	$9.70	993,310	$11.95
Restricted Stock Units	863,170	$18.64	867,600	$22.31
Performance Awards [(c)]	265,340	$21.26	286,470	$25.36

[(a)] The share amounts shown in this table do not reflect an adjustment for estimated forfeitures.
[(b)] Per share amounts.
[(c)] The number of Performance Awards shown represents the target value of the award.

As of June 30, 2013, total future compensation cost related to nonvested stock-based compensation arrangements was $53 million, and the weighted average period over which this cost is expected to be recognized is approximately 1.5 years.

Compensation expense for stock options is recorded over the vesting period based on the fair value on the date of grant, as calculated by U. S. Steel using the Black-Scholes model and the assumptions listed below. The stock options vest ratably over a three-year service period and have a term of ten years.

Black-Scholes Assumptions	May 2013 Executive Grant		May 2013 Non-Executive Grant		May 2012 Grant	
Grant date price per share of option award	$18.64		$18.64		$22.31	
Exercise price per share of option award	$25.00		$18.64		$22.31	
Expected annual dividends per share, at grant date	$0.20		$0.20		$0.20	
Expected life in years	5.0		5.0		5.0	
Expected volatility	67	%	67	%	68	%
Risk-free interest rate	1.049	%	1.049	%	0.8	%
Grant date fair value per share of unvested option awards as calculated from above	$8.50		$9.70		$11.95	

The expected annual dividends per share are based on the latest annualized dividend rate at the date of grant; the expected life in years is determined primarily from historical stock option exercise data; the expected volatility is based on the historical volatility of U. S. Steel stock; and the risk-free interest rate is based on the U.S. Treasury strip rate for the expected life of the option.

Restricted stock units generally vest ratably over three years. The fair value of the restricted stock units is the market price of the underlying common stock on the date of the grant.

Performance awards vest at the end of a three-year performance period as a function of U. S. Steel's total shareholder return compared to the total shareholder return of a group of peer companies over the three-year performance period. Performance awards can vest at between zero and 200 percent of the target award. The fair value of the performance awards is calculated using a Monte-Carlo simulation.

9. Income Taxes

Tax provision

For the six months ended June 30, 2013 and 2012, we recorded a tax provision of $10 million on our pretax loss of $141 million and a tax provision of $166 million on our pretax income of $48 million, respectively. The tax provision does not reflect any tax benefit for pretax losses in Canada and Serbia (USSS was sold on January 31, 2012), which are jurisdictions where we have, or had, recorded full valuation allowances on deferred tax assets, and also does not reflect any tax provision or benefit for certain foreign currency remeasurement gains and losses that are not recognized in any tax jurisdiction. In addition, no significant tax benefit was recorded on the $399 million loss on the sale of USSS.

The tax provision for the first six months of 2013 is based on an estimated annual effective rate, which requires management to make its best estimate of annual pretax income or loss. During the year, management regularly updates forecasted annual pretax results for the various countries in which we operate based on changes in factors such as prices, shipments, product mix, plant operating performance and cost estimates. To the extent that actual 2013 pretax results for U.S. and foreign income or loss vary from estimates applied herein, the actual tax provision or benefit recognized in 2013 could be materially different from the forecasted amount used to estimate the tax provision for the six months ended June 30, 2013.

Unrecognized tax benefits

Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken, in a tax return and the benefit recognized for accounting purposes pursuant to the guidance in ASC Topic 740 on income taxes. The total amount of gross unrecognized tax benefits was $87 million at June 30, 2013 and $85 million at December 31, 2012. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was $68 million and $65 million as of June 30, 2013 and December 31, 2012, respectively.

U. S. Steel records interest related to uncertain tax positions as a part of net interest and other financial costs in the Statement of Operations. Any penalties are recognized as part of selling, general and administrative expenses. As of both June 30, 2013 and December 31, 2012, U. S. Steel had accrued liabilities of $7 million for interest related to uncertain tax positions. U. S. Steel currently does not have a liability for tax penalties.

It is reasonably expected that during the next 12 months unrecognized tax benefits related to income tax issues will decrease by approximately $10 million.

Deferred taxes

As of June 30, 2013, the net domestic deferred tax asset was $415 million compared to $538 million at December 31, 2012. A substantial amount of U. S. Steel’s domestic deferred tax assets relates to employee benefits that will become deductible for tax purposes over an extended period of time as cash contributions are made to employee benefit plans and retiree benefits are paid in the future. We continue to believe it is more likely than not that the net domestic deferred tax asset will be realized.

As of June 30, 2013, the net foreign deferred tax asset was $58 million, net of established valuation allowances of $1,117 million. At December 31, 2012, the net foreign deferred tax asset was $57 million, net of established valuation allowances of $1,099 million. The net foreign deferred tax asset will fluctuate as the value of the U.S. dollar changes with respect to the euro and the Canadian dollar. At December 31, 2012, a full valuation allowance was recorded for the net Canadian deferred tax asset primarily due to cumulative losses in Canada in recent years.

If evidence changes and it becomes more likely than not that the Company will realize the net Canadian deferred tax asset, the valuation allowance would be partially or fully reversed. Any reversal of this amount would result in a decrease to income tax expense. The Slovak income tax rate increased from 19% to 23% starting in 2013. This change had an insignificant impact on deferred taxes at the end of 2012.

10. Significant Equity Investments

Summarized unaudited income statement information for our significant equity investments for the six months ended June 30, 2013 and 2012 is reported below (amounts represent 100% of investee financial information):

(In millions)	2013	2012
Net sales	$1,236	$1,305
Cost of sales	937	915
Operating income	268	337
Net income	257	333
Net income attributable to significant equity investments	257	333

U. S. Steel’s portion of the equity in net income of the significant equity investments above was $23 million and $73 million for the six months ended June 30, 2013 and 2012, respectively, which is included in the income from investees line on the Consolidated Statement of Operations.

11. Earnings and Dividends Per Common Share

Earnings Per Share Attributable to United States Steel Corporation Shareholders

Basic earnings per common share is based on the weighted average number of common shares outstanding during the period.

Diluted earnings per common share assumes the exercise of stock options, the vesting of restricted stock units and performance awards and the conversion of convertible notes, provided in each case the effect is dilutive. The “if-converted” method is used to calculate the dilutive effect of the Senior Convertible Notes due in 2014 and the “treasury stock” method is used to calculate the dilutive effect of the Senior Convertible Notes due in 2019 (due to our current intent and policy, among other factors, to settle the principal amount of the 2019 Senior Convertible Notes in cash upon conversion).

The computations for basic and diluted earnings per common share from continuing operations are as follows:

(Dollars in millions, except per share amounts)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net (loss) income attributable to United States Steel Corporation shareholders	$(78)	$101	$(151)	$(118)
Plus income effect of assumed conversion-interest on convertible notes	—	6	—	—
Net (loss) income after assumed conversion	$(78)	$107	$(151)	$(118)
Weighted-average shares outstanding (in thousands):				
Basic	144,485	144,176	144,419	144,123
Effect of convertible notes	—	27,059	—	—
Effect of stock options, restricted stock units and performance awards	—	181	—	—
Adjusted weighted-average shares outstanding, diluted	144,485	171,416	144,419	144,123
Basic earnings per common share	$(0.54)	$0.70	$(1.05)	$(0.82)
Diluted earnings per common share	$(0.54)	$0.62	$(1.05)	$(0.82)

The following table summarizes the securities that were antidilutive, and therefore, were not included in the computations of diluted earnings per common share:

(In thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Securities granted under the 2005 Stock Incentive Plan	7,177	4,330	7,177	5,575
Securities convertible under the Senior Convertible Notes	10,058	—	18,042 [(a)]	27,059
Total	17,235	4,330	25,219	32,634

(a) On March 27, 2013, we repurchased approximately $542 million aggregate principal amount of our 4% Senior Convertible Notes due in 2014. If the repurchases had occurred on January 1, 2013, the antidilutive securities would be 10,058 for the six months ended June 30, 2013.

Dividends Paid Per Share

The dividend for each of the first and second quarters of 2013 and 2012 was five cents per common share.

12. Inventories

Inventories are carried at the lower of cost or market. The first-in, first-out method is the predominant method of inventory costing in Europe and Canada. The last-in, first-out (LIFO) method is the predominant method of inventory costing in the United States. At June 30, 2013 and December 31, 2012, the LIFO method accounted for 59 percent and 56 percent of total inventory values, respectively.

(In millions)	June 30, 2013	December 31, 2012
Raw materials	$860	$945
Semi-finished products	820	883
Finished products	494	573
Supplies and sundry items	95	102
Total	$2,269	$2,503

Current acquisition costs were estimated to exceed the above inventory values by $1.0 billion at both June 30, 2013 and December 31, 2012. The effect of liquidations of LIFO inventories was insignificant in both the three and six months ended June 30, 2013. Cost of sales was reduced by $6 million and $11 million in the three and six months ended June 30, 2012, respectively, as a result of liquidation of LIFO inventories.

Inventory includes $86 million of land held for residential or commercial development as of both June 30, 2013 and December 31, 2012.

13. Derivative Instruments

U. S. Steel is exposed to foreign currency exchange rate risks as a result of our European and Canadian operations. USSE's revenues are primarily in euros and costs are primarily in U.S. dollars and euros. USSC's revenues and costs are denominated in both Canadian and U.S. dollars. In addition, foreign cash requirements have been, and in the future, may be funded by intercompany loans, creating intercompany monetary assets and liabilities in currencies other than the functional currency of the entities involved, which can affect income when remeasured at the end of each period.

U. S. Steel uses euro forward sales contracts with maturities no longer than 12 months to exchange euros for U.S. dollars to manage our currency requirements and exposure to foreign currency exchange rate fluctuations. Derivative instruments are required to be recognized at fair value in the balance sheet. U. S. Steel has not elected to designate these euro forward sales contracts as hedges. Therefore, changes in their fair value are recognized immediately in the results of operations. The gains and losses recognized on these euro forward sales contracts may also partially offset the accounting remeasurement gains and losses recognized on intercompany loans.

As of June 30, 2013, U. S. Steel held euro forward sales contracts with a total notional value of approximately $347 million. We mitigate the risk of concentration of counterparty credit risk by purchasing our forward sales contracts from several counterparties.

Additionally, we routinely enter into fixed-price forward physical purchase contracts to partially manage our exposure to price risk related to the purchases of natural gas and certain nonferrous metals used in the production process. During 2013 and 2012, the forward physical purchase contracts for natural gas and nonferrous metals qualified for the normal purchases and normal sales exemption described in ASC Topic 815 and were not subject to mark-to-market accounting.

The following summarizes the location and amounts of the fair values and gains or losses related to derivatives included in U. S. Steel's financial statements as of June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 and 2012:

(In millions)	Balance Sheet Location	Fair Value June 30, 2013	Fair Value December 31, 2012
Foreign exchange forward contracts	Accounts receivable	$2	$—
Foreign exchange forward contracts	Accounts payable	$5	$12

(In millions)	Statement of Operations Location	Amount of Gain (Loss) Three Months Ended June 30, 2013	Amount of Gain (Loss) Six Months Ended June 30, 2013
Foreign exchange forward contracts	Other financial costs	$(7)	$4

(In millions)	Statement of Operations Location	Amount of Gain (Loss) Three Months Ended June 30, 2012	Amount of Gain (Loss) Six Months Ended June 30, 2012
Foreign exchange forward contracts	Other financial costs	$26	$13

In accordance with the guidance found in ASC Topic 820 on fair value measurements and disclosures, the fair value of our euro forward sales contracts was determined using Level 2 inputs, which are defined as “significant other observable” inputs. The inputs used are from market sources that aggregate data based upon market transactions.

14. Debt

(In millions)	Interest Rates %	Maturity	June 30, 2013	December 31, 2012
2037 Senior Notes	6.65	2037	$350	$350
2022 Senior Notes	7.50	2022	400	400
2021 Senior Notes	6.875	2021	275	—
2020 Senior Notes	7.375	2020	600	600
2018 Senior Notes	7.00	2018		