

UNITED STATES STEEL CORP
Form 10-Q
November 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the Quarterly Period Ended September 30, 2016

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 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 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 Accelerated filer Non-accelerated filer Smaller reporting company

P

(Do not check if a 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

Common stock outstanding at October 27, 2016 – 172,459,063 shares

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains information that may constitute “forward-looking statements” within the meaning of Section 27 of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in those sections. Generally, we have identified such forward-looking statements by using the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “target,” “forecast,” “aim,” “should,” “will” and similar expressions or by using “in connection with any discussion of, among other things, operating performance, trends, events or developments that we expect or anticipate will occur in the future, statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. Forward-looking statements are not historical facts, but instead represent only the Company’s beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside of the Company’s control. It is possible that the Company’s actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Management believes that these forward-looking statements are reasonable as of the time made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company’s historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to the risks and uncertainties described in this report and in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

References in this Quarterly Report on Form 10-Q to "U. S. Steel," "the Company," "we," "us," and "our" refer to United States Steel Corporation and its consolidated subsidiaries unless otherwise indicated by the context.

UNITED STATES STEEL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(Dollars in millions, except per share amounts)				
Net sales:				
Net sales	\$2,370	\$2,446	\$6,716	\$7,901
Net sales to related parties (Note 18)	316	384	895	1,101
Total	2,686	2,830	7,611	9,002
Operating expenses (income):				
Cost of sales (excludes items shown below)	2,360	2,654	7,193	8,512
Selling, general and administrative expenses	73	99	206	308
Depreciation, depletion and amortization	126	136	384	418
Earnings from investees	(18)	(6)	(91)	(29)
Impairment of intangible assets (Note 5)	14	—	14	—
Losses associated with U. S. Steel Canada Inc. (Note 21)	—	16	—	271
Restructuring and other charges (Note 19)	(3)	103	1	275
Net loss (gain) on disposal of assets	3	(1)	6	(2)
Other income, net	(1)	(1)	(1)	(2)
Total	2,554	3,000	7,712	9,751
Earnings (loss) before interest and income taxes	132	(170)	(101)	(749)
Interest expense	58	56	173	160
Interest income	(2)	(2)	(5)	(2)
Loss on debt extinguishment	—	—	22	—
Other financial (income) costs	6	(1)	18	12
Net interest and other financial costs (Note 7)	62	53	208	170
Earnings (loss) before income taxes	70	(223)	(309)	(919)
Income tax provision (benefit) (Note 9)	19	(50)	26	(410)
Net earnings (loss)	51	(173)	(335)	(509)
Less: Net earnings attributable to noncontrolling interests	—	—	—	—
Net earnings (loss) attributable to United States Steel Corporation	\$51	\$(173)	\$(335)	\$(509)
Earnings (loss) per common share (Note 10):				
Earnings (loss) per share attributable to United States Steel Corporation stockholders:				
-Basic	\$0.32	\$(1.18)	\$(2.22)	\$(3.49)
-Diluted	\$0.32	\$(1.18)	\$(2.22)	\$(3.49)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2016	2015	2016	2015
Net earnings (loss)	\$51	\$(173)	\$(335)	\$(509)
Other comprehensive income (loss), net of tax:				
Changes in foreign currency translation adjustments	10	(5)	41	(83)
Changes in pension and other employee benefit accounts	48	(131)	(134)	(44)
Changes in unrecognized (losses) gains on other	(4)	—	17	—
Total other comprehensive income (loss), net of tax	54	(136)	(76)	(127)
Comprehensive income (loss) including noncontrolling interest	105	(309)	(411)	(636)
Comprehensive income attributable to noncontrolling interest	—	—	—	—
Comprehensive income (loss) attributable to United States Steel Corporation	\$105	\$(309)	\$(411)	\$(636)

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

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UNITED STATES STEEL CORPORATION
CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,445	\$ 755
Receivables, less allowance of \$26 and \$28	1,014	864
Receivables from related parties, less allowance of \$270 and \$254 (Note 18)	182	199
Inventories (Note 11)	1,742	2,074
Other current assets	28	25
Total current assets	4,411	3,917
Property, plant and equipment	14,453	14,253
Less accumulated depreciation and depletion	10,235	9,842
Total property, plant and equipment, net	4,218	4,411
Investments and long-term receivables, less allowance of \$7 and \$7	538	540
Long-term receivables from related parties, less allowance of \$1,624 and \$1,446 (Note 18)	—	—
Intangibles – net (Note 5)	177	196
Deferred income tax benefits (Note 9)	6	15
Other noncurrent assets	117	88
Total assets	\$ 9,467	\$ 9,167
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 1,566	\$ 1,412
Accounts payable to related parties (Note 18)	89	81
Payroll and benefits payable	464	462
Accrued taxes	108	99
Accrued interest	78	49
Current portion of long-term debt (Note 13)	92	45
Total current liabilities	2,397	2,148
Long-term debt, less unamortized discount and debt issuance costs (Note 13)	2,988	3,093
Employee benefits	1,097	1,101
Deferred income tax liabilities (Note 9)	28	29
Deferred credits and other noncurrent liabilities	355	359
Total liabilities	6,865	6,730
Contingencies and commitments (Note 20)		
Stockholders' Equity (Note 16):		
Common stock (176,424,554 shares and 150,925,911 shares issued) (Notes 10 and 22)	176	151
Treasury stock, at cost (3,966,770 and 4,644,867 shares)	(277) (339)
Additional paid-in capital	4,092	3,603
(Accumulated deficit) retained earnings	(145) 190
Accumulated other comprehensive loss (Note 17)	(1,245) (1,169)
Total United States Steel Corporation stockholders' equity	2,601	2,436
Noncontrolling interests	1	1
Total liabilities and stockholders' equity	\$ 9,467	\$ 9,167

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

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

	Nine Months Ended September 30,	
	2016	2015
(Dollars in millions)		
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net loss	\$(335)	\$(509)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	384	418
Impairment of intangible assets (Note 5)	14	—
Losses associated with U. S. Steel Canada Inc. (Note 21)	—	271
Restructuring and other charges (Note 19)	1	275
Provision for doubtful accounts	—	(13)
Pensions and other postretirement benefits	(38)	(33)
Deferred income taxes	9	(385)
Net loss (gain) on disposal of assets	6	(2)
Distributions received, net of equity investees earnings	(86)	(26)
Changes in:		
Current receivables	(127)	529
Inventories	339	38
Current accounts payable and accrued expenses	279	(261)
Income taxes receivable/payable	14	7
Bank checks outstanding	15	8
All other, net	102	(64)
Net cash provided by operating activities	577	253
Investing activities:		
Capital expenditures	(268)	(354)
Acquisitions (Note 4)	—	(25)
Disposal of assets	6	2
Change in restricted cash, net	(3)	8
Investments, net	(17)	(2)
Net cash used in investing activities	(282)	(371)
Financing activities:		
Issuance of long-term debt, net of financing costs	958	—
Repayment of long-term debt	(1,019)	(18)
Settlement of contingent consideration	(15)	—
Net proceeds from public offering of common stock (Note 22)	482	—
Receipts from exercise of stock options	4	1
Dividends paid	(22)	(22)
Net cash provided by (used in) financing activities	388	(39)
Effect of exchange rate changes on cash	7	(32)
Net increase (decrease) in cash and cash equivalents	690	(189)
Cash and cash equivalents at beginning of year	755	1,354
Cash and cash equivalents at end of period	\$1,445	\$1,165

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

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Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation and Significant Accounting Policies

United States Steel Corporation produces and sells steel products, including flat-rolled and tubular products, in North America and Central Europe. Operations in North America also include iron ore and coke production facilities, railroad services and real estate operations. Operations in Europe also include coke production facilities. 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 statement 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 U.S. GAAP for complete financial statements. Additional information is contained in the United States Steel Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which should be read in conjunction with these financial statements.

Revision of Prior Period Financial Statements

During 2015, the Company identified a prior period error related to the classification of unpaid capital expenditures in the Consolidated Statements of Cash Flows that impacted the quarterly interim financial statements in 2015. As a result, the Consolidated Statement of Cash Flows for the the nine months ended September 30, 2015 has been revised to reflect a decrease in cash provided by operating activities and a decrease in cash used in investing activities of \$55 million. The Company has concluded the impact of this error was not material to the previously filed financial statements.

2. New Accounting Standards

On August 26, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 reduces diversity in practice in how certain transactions are classified in the statement of cash flows by addressing eight specific cash receipt and cash payment issues. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. U. S. Steel is evaluating the financial statement implications of adopting ASU 2016-15.

On March 30, 2016, the FASB issued Accounting Standards Update 2016-09, Compensation - Stock Compensation (ASU 2016-09). ASU 2016-09 simplifies the accounting and reporting of certain aspects of share-based payment transactions, including income tax treatment of excess tax benefits, forfeitures, classification of share-based awards as either equity or liabilities, and classification in the statement of cash flows for certain share-based transactions related to tax benefits and tax payments. ASU 2016-09 is effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods; early adoption is permitted. U. S. Steel is evaluating the financial statement implications of adopting ASU 2016-09, but does not expect a material financial statement impact relating to the adoption of this ASU.

On February 25, 2016, the FASB issued Accounting Standards Update 2016-02, Leases (ASU 2016-02). ASU 2016-02 supersedes prior lease accounting guidance. Under ASU 2016-02, for operating leases, a lessee should recognize in its statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term; recognize a single lease cost, which is allocated over the lease term, generally on a straight line basis; and classify all cash payments within the operating activities in the statement of cash flows. For financing leases, a lessee is required to recognize a right-of-use asset; and a lease liability; recognize interest on the lease liability separately from amortization of the right-of-use asset, and classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability within the operating activities in the statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. In addition, at the inception of a contract, an entity should determine whether the contract is or contains a lease. ASU 2016-02 is effective for public entities for fiscal

years beginning after December 15, 2018, including interim periods within those fiscal years, using a modified retrospective approach. U. S. Steel is evaluating the financial statement implications of adopting ASU 2016-02.

On July 22, 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory (ASU 2015-11). ASU 2015-11 requires an entity to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. ASU 2015-11 will not apply to inventories that are measured using either the last-in, first-out (LIFO) method or the retail inventory method. ASU 2015-11 is effective for public entities for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years; early application is permitted. U. S. Steel does not expect a material financial statement impact relating to the adoption of this ASU.

On April 7, 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 changes the presentation of debt issuance costs in financial statements and requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. An entity is required to apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. On August 16, 2015, the FASB issued ASU 2015-15 to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03. Effective January 1, 2016, U. S. Steel retroactively adopted ASU 2015-03. As a result, debt issuance costs which were a component of other non-current assets in the Consolidated Balance Sheets were reclassified and are now reflected as a reduction of long-term debt. As of September 30, 2016 and December 31, 2015, other non-current assets and long-term debt in the Consolidated Balance Sheets decreased by approximately \$37 million and \$23 million, respectively.

On August 27, 2014, the FASB issued Accounting Standards Update No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15). ASU 2014-15 explicitly requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. Currently, there is no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. ASU 2014-15 is effective for all entities for interim and annual periods beginning after December 15, 2016; early application is permitted. U. S. Steel does not expect a material financial statement impact relating to the adoption of this ASU.

On May 28, 2014, the FASB and the International Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016; early application is not permitted. On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date (ASU 2015-14). ASU 2015-14 defers the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, and only permits entities to adopt the standard one year earlier as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. U. S. Steel is evaluating the financial statement implications of adopting ASU 2014-09, but does not expect a material financial statement impact relating to the adoption of this ASU.

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 our railroad and real estate businesses that do not constitute reportable segments are combined and disclosed in the Other Businesses category.

Effective January 1, 2015, the Flat-Rolled segment was realigned to better serve customer needs through the creation of five commercial entities to specifically address customers in the automotive, consumer (which includes the packaging, appliance and construction industries), industrial, service center and mining market sectors. Beginning

January 1, 2016, the Flat-Rolled segment was further streamlined and consolidated to consist of three commercial entities: automotive, consumer and the combined industrial, service center and mining commercial entities. These realignments did not affect the Company's reportable segments.

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The chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being earnings (loss) before interest and income taxes. Earnings (loss) before interest and income taxes 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 chief operating decision maker assesses the Company's assets on an enterprise wide level, based upon the projects that yield the greatest return to the Company as a whole, and not on an individual segment level.

The accounting principles applied at the operating segment level in determining earnings (loss) before interest and income taxes are generally the same as those applied at the consolidated financial statement level. The transfer value for steel rounds from Flat-Rolled to Tubular was based on cost. In the third quarter of 2015, the blast furnace and associated steelmaking operations, along with most of the flat-rolled finishing operations at Fairfield Works were shutdown. Therefore, Flat-Rolled is currently not supplying raw steel for rounds production to Tubular. 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 three months ended September 30, 2016 and 2015 are:

(In millions)	Three	Customer	Intersegment	Net	Earnings	Earnings
Months Ended September 30, 2016		Sales	Sales	Sales	(Loss) from Investees	(Loss) Before Interest and Income Taxes
Flat-Rolled		\$ 1,986	\$ —	\$ 1,986	\$ 18	\$ 114
USSE		575	1	576	—	81
Tubular		114	—	114	1	(75)
Total reportable segments		2,675	1	2,676	19	120
Other Businesses		11	27	38	(1)	18
Reconciling Items and Eliminations		—	(28)	(28)	—	(6)
Total		\$ 2,686	\$ —	\$ 2,686	\$ 18	\$ 132
Three Months Ended September 30, 2015						
Flat-Rolled		\$ 2,070	\$ 72	\$ 2,142	\$ 4	\$(18)
USSE		546	1	547	—	18
Tubular		199	—	199	2	(50)
Total reportable segments		2,815	73	2,888	6	(50)
Other Businesses		15	28	43	—	10
Reconciling Items and Eliminations		—	(101)	(101)	—	(130)
Total		\$ 2,830	\$ —	\$ 2,830	\$ 6	\$(170)

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The results of segment operations for the nine months ended September 30, 2016 and 2015 are:

(In millions) Nine Months Ended September 30, 2016	Customer Sales	Intersegment Sales	Net Sales	Earnings (Loss) from Investees	Earnings (Loss) Before Interest and Income Taxes
Flat-Rolled	\$ 5,643	\$ 16	\$5,659	\$ 88	\$(68)
USSE	1,616	2	1,618	—	122
Tubular	303	2	305	5	(217)
Total reportable segments	7,562	20	7,582	93	(163)
Other Businesses	49	80	129	(2)	42
Reconciling Items and Eliminations	—	(100)	(100)	—	20
Total	\$ 7,611	\$ —	\$7,611	\$ 91	\$(101)
Nine Months Ended September 30, 2015					
Flat-Rolled	\$ 6,388	\$ 245	\$6,633	\$ 26	\$(149)
USSE	1,837	2	1,839	—	75
Tubular	730	—	730	6	(115)
Total reportable segments	8,955	247	9,202	32	(189)
Other Businesses	47	81	128	(3)	24
Reconciling Items and Eliminations	—	(328)	(328)	—	(584)
Total	\$ 9,002	\$ —	\$9,002	\$ 29	\$(749)

The following is a schedule of reconciling items to Earnings (Loss) Before Interest and Income Taxes:

(In millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Items not allocated to segments:				
Postretirement benefit (expense) ^(a)	\$8	\$(11)	\$36	\$(38)
Other items not allocated to segments:				
Impairment of intangible assets	(14)	—	(14)	—
Loss on shutdown of Fairfield flat-rolled operations ^{(b)(d)}	—	(91)	—	(91)
Losses associated with U. S. Steel Canada Inc. (Note 21)	—	(16)	—	(271)
Restructuring and other charges and adjustments ^(c)	—	(12)	(2)	(31)
Loss on shutdown of coke production facilities ^(d)	—	—	—	(153)
Total other items not allocated to segments	(14)	(119)	(16)	(546)
Total reconciling items	\$(6)	\$(130)	\$20	\$(584)

(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 defined pension, retiree health care and life insurance benefit plans.

(b) Fairfield Flat-Rolled Operations include the blast furnace and associated steelmaking operations, along with most of the flat-rolled finishing operations at Fairfield Works. The slab and rounds casters and the #5 coating line continue to operate.

(c) For the three months ended September 30, 2016, there were no restructuring and other charges and adjustment items not allocated to the Company's reportable segments. For the nine months ended September 30, 2016, approximately \$(2) million is included in Cost of sales and approximately \$4 million is included in the Restructuring and other charges in the Consolidated Statement of Operations. See Note 19 to the Consolidated Financial Statements.

(d) Included in Restructuring and other charges on the Consolidated Statement of Operations. See Note 19 to the Consolidated Financial Statements.

4. Acquisition

On May 29, 2015, the Company purchased the 50 percent joint venture interest in Double Eagle Steel Coating Company (DESCO) that it did not previously own for \$25 million. DESCO's electrolytic galvanizing line (EGL) has become part of the larger operational footprint of U. S. Steel's Great Lakes Works within the Flat-Rolled segment. The EGL is increasing our ability to provide industry leading advanced high strength steels, including Generation 3 grades under development, as well as to provide high quality exposed steel for automotive body and closure applications. The Company's previously held 50 percent equity interest of \$3 million was recorded at fair market value resulting in a net gain of approximately \$3 million which has been recognized in the earnings from investees line in the consolidated statement of operations. Goodwill of approximately \$3 million was recognized and is included as a component of other noncurrent assets in the Company's Consolidated Balance Sheet. The fair value of the DESCO acquisition was measured using both cost and market approaches, Level 2 inputs, in accordance with ASC No. 820, Fair Value Measurement. Transaction costs associated with the acquisition were insignificant. The amount of revenue recognized in the consolidated statement of operations as a result of the acquisition was not significant for the periods presented.

5. Intangible Assets

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 September 30, 2016			As of December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	22-23 Years	\$ 132	\$ 57	\$ 75	\$ 132	\$ 52	\$ 80
Other	2-20 Years	17	9	8	17	8	9
Total amortizable intangible assets		\$ 149	\$ 66	\$ 83	\$ 149	\$ 60	\$ 89

The carrying amount of acquired water rights and patents with indefinite lives as of September 30, 2016 totaled \$75 million and \$19 million and as of December 31, 2015 totaled \$75 million and \$33 million, respectively. The water rights and patents are tested for impairment annually in the third quarter, or whenever events or circumstances indicate the carrying value may not be recoverable. U. S. Steel performed a quantitative impairment evaluation of its indefinite-lived intangible assets, which includes its water rights and in-process research and development patents, during the third quarter of 2016. Based on the results of the evaluation, the water rights were not impaired; however, the estimated fair value of the patents had decreased below their carrying value. As a result, an impairment charge of approximately \$14 million was recorded during the three months ended September 30, 2016. Key assumptions used in the discounted cash flow analysis for the evaluation of the patents consisted of a combination of Level 2 and Level 3 inputs, which included future cash flow projections, a royalty rate of 5% and a discount rate of 17%.

Identifiable intangible assets with finite lives are reviewed for impairment whenever events or circumstances indicate the carrying values may not be recoverable. During the fourth quarter of 2015, due to a significant decline in energy

prices and high levels of tubular imports, U. S. Steel completed a review of certain of its identifiable intangible assets with finite lives, primarily customer relationships with a carrying value of \$80 million, and determined the assets were not impaired.

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Amortization expense was \$2 million for both of the three month periods ended September 30, 2016 and 2015, respectively, and \$6 million for both of the nine month periods ended September 30, 2016 and 2015, respectively. The estimated future amortization expense of identifiable intangible assets during the next five years is \$2 million for the remaining portion of 2016 and \$7 million each year from 2017 to 2020.

6. Pensions and Other Benefits

The following table reflects the components of net periodic benefit cost (income) for the three months ended September 30, 2016 and 2015:

(In millions)	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Service cost	\$14	\$25	\$5	\$5
Interest cost	64	66	25	24
Expected return on plan assets	(106)	(109)	(38)	(38)
Amortization of prior service cost	2	4	6	(2)
Amortization of actuarial net loss	33	60	1	2
Net periodic benefit cost (income), excluding below	7	46	(1)	(9)
Multiemployer plans	16	17	—	—
Settlement, termination and curtailment losses	10	24	(a) —	(4)
Net periodic benefit cost (income)	\$33	\$87	\$(1)	\$(13)

^(a) Includes approximately \$20 million of pension and other benefits that were reclassified to Restructuring and other charges on the Consolidated Statements of Operations.

The following table reflects the components of net periodic benefit cost (income) for the nine months ended September 30, 2016 and 2015:

(In millions)	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Service cost	\$40	\$78	\$15	\$16
Interest cost	194	197	74	73
Expected return on plan assets	(316)	(330)	(113)	(115)
Amortization of prior service cost	8	13	19	(5)
Amortization of actuarial net loss	97	188	2	5
Net periodic benefit cost (income), excluding below	23	146	(3)	(26)
Multiemployer plans	48	51	—	—
Settlement, termination and curtailment losses	13	29	(a) —	(4)
Net periodic benefit cost (income)	\$84	\$226	\$(3)	\$(30)

^(a) Includes approximately \$20 million of pension and other benefits that were reclassified to Restructuring and other charges on the Consolidated Statements of Operations.

Settlements

During the first nine months of 2016, the non-qualified pension plan incurred settlement charges of approximately \$13 million due to lump sum payments for certain individuals. For 2015, the non-qualified pension plan and the other benefits plan incurred settlement and curtailment charges of \$25 million primarily due to lump sum payments for certain individuals and pension curtailment charges associated with the shutdown of the blast furnace and associated steelmaking operations, along with most of the flat-rolled finishing operations at Fairfield Works (Fairfield Flat-Rolled Operations).

Employer Contributions

On August 1, 2016, the Company made a voluntary contribution of 3,763,643 shares of common stock (the shares), par value of \$1.00 per share, to the U. S. Steel Retirement Plan Trust, which is the funding vehicle for the Company's main defined benefit pension plan. The shares were valued by an independent valuation firm for purposes of the contribution at \$26.57 per share, or approximately \$100 million in the aggregate, which was the closing price of the Company's common stock on August 1, 2016.

During the first nine months of 2016, U. S. Steel made cash payments of \$47 million to the Steelworkers' Pension Trust and \$25 million of pension payments not funded by trusts.

During the first nine months of 2016, cash payments of \$47 million were made for other postretirement benefit payments not funded by trusts.

Company contributions to defined contribution plans totaled \$10 million and \$10 million in the three months ended September 30, 2016 and 2015, respectively. Company contributions to defined contribution plans totaled \$32 million and \$31 million for the nine months ended September 30, 2016 and 2015, respectively.

Non-retirement postemployment benefits

U. S. Steel incurred costs of approximately \$9 million and \$7 million for the three and nine months ended September 30, 2016, respectively, compared to costs of \$4 million and \$44 million for the three and nine months ended September 30, 2015, respectively, related to employee costs for supplemental unemployment benefits and the continuation of health care benefits and life insurance coverage for employees associated with the temporary idling of certain facilities and reduced production at others. Payments for these benefits during the three and nine months ended September 30, 2016 were \$19 million and \$58 million, respectively. Payments for these benefits during the three and nine months ended September 30, 2015 were \$10 million and \$25 million, respectively.

Pension Funding

In November 2015, pension stabilization legislation further extended a revised interest rate formula to be used to measure defined benefit pension obligations for calculating minimum annual contributions. The new interest rate formula results in higher interest rates for minimum funding calculations as compared to prior law over the next few years, which will improve the funded status of our main defined benefit pension plan and reduce minimum required contributions. The Company estimates there will be no minimum required contribution to the main pension plan in 2016 or 2017.

7. Net Interest and Other Financial Costs

Net interest and other financial costs includes interest expense (net of capitalized interest), interest income, financing costs, derivatives gains and losses and foreign currency remeasurement gains and losses. Foreign currency gains and losses are primarily a result of foreign currency denominated assets and liabilities that require remeasurement and the impacts of euro-U.S. dollar derivatives activity. During the three months ended September 30, 2016 and 2015, net foreign currency losses of \$1 million and gains of \$6 million respectively, were recorded in other financial costs. During the nine months ended September 30, 2016 and 2015, net foreign currency losses of \$2 million and gains of \$10 million respectively, were recorded in other financial costs. Additionally, during the nine months ended September 30, 2016, there was a loss on debt extinguishment recognized of \$22 million.

See Note 12 for additional information on U. S. Steel's use of derivatives to mitigate its foreign currency exchange rate exposure. See Note 13 for further details on U. S. Steel's redemption of its senior debt.

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 the 2005 Stock Incentive Plan (the 2005 Plan) and the 2016 Omnibus Incentive Compensation Plan (the Omnibus Plan), which is more fully described in Note 14 of the United States Steel Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and the

2016 Proxy Statement, respectively. On April 26, 2016, the Company's stockholders approved the Omnibus Plan and authorized the Company to issue up to 7,200,000 shares of U. S. Steel common stock under the Omnibus Plan. While the awards that were previously granted under the 2005 Plan remain outstanding, all future awards will be granted under the Omnibus Plan. As of September 30, 2016, there were 5,131,175 shares available for future grants under the Omnibus Plan.

Recent grants of stock-based compensation consist of stock options, restricted stock units, and total shareholder return (TSR) performance awards. Stock options are generally issued at the market price of the underlying stock on the date of the grant. Upon exercise of stock options, shares of U. S. Steel common stock are issued

from treasury stock. The following table is a general summary of the awards made under the 2005 Plan and the Omnibus Plan.

Grant Details	2016		2015	
	Shares ^(a)	Fair Value ^(b)	Shares ^(a)	Fair Value ^(b)
Stock Options	1,333,210	\$ 6.24	1,638,540	\$ 10.02
Restricted Stock Units	1,117,495	\$ 14.27	800,500	\$ 24.64
TSR Performance Awards ^(c)	308,130	\$ 10.02	273,560	\$ 24.95

^(a) The share amounts shown in this table do not reflect an adjustment for estimated forfeitures.

^(b) Represents the per share weighted-average for all grants during the period.

^(c) The number of performance awards shown represents the target value of the award.

U. S. Steel recognized pretax stock-based compensation expense in the amount of \$5 million and \$8 million in the three month periods ended September 30, 2016 and 2015, respectively, and \$16 million and \$31 million in the first nine months of 2016 and 2015, respectively.

As of September 30, 2016, total future compensation expense related to nonvested stock-based compensation arrangements was \$31 million, and the weighted average period over which this expense is expected to be recognized is approximately 1 year.

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 ^(a)	2016	2015
	Grants	Grants
Grant date price per share of option award	\$ 14.78	\$