UNITED STATES STEEL CORP
Form 10-Q
April 27, 2009
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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 March 31, 2009

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 __ (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_√_

Common stock outstanding at April 24, 2009 116,172,632 shares

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(Dollars in millions, except per share amounts)	**Three Months Ended March 31, 2009**	**2008**
Net sales:		
Net sales	**$ 2,605**	$ 4,903
Net sales to related parties *(Note 20)*	**145**	293
Total	**2,750**	5,196
Operating expenses (income):		
Cost of sales (excludes items shown below)	**3,007**	4,643
Selling, general and administrative expenses	**143**	142
Depreciation, depletion and amortization *(Notes 6 and 8)*	**158**	156
Loss (Income) from investees	**21**	(7)
Net gains on disposal of assets *(Note 5)*	**(97)**	(1)
Other income, net	**(4)**	(3)
Total	**3,228**	4,930
(Loss) Income from operations	**(478)**	266
Interest expense	**36**	46
Interest income	**(2)**	(5)
Other financial costs (income) *(Note 9)*	**37**	(73)
Net interest and other financial costs	**71**	(32)
(Loss) Income before income taxes	**(549)**	298
Income tax (benefit) provision *(Note 10)*	**(110)**	58
Net (loss) income	**(439)**	240
Less: Net (loss) income attributable to noncontrolling interests	**-**	5
Net (loss) income attributable to United States Steel Corporation	**$ (439)**	$ 235
(Loss) Income per common share *(Note 11)*:		
Net (loss) income per share attributable to United States Steel Corporation shareholders:		
- Basic	**$ (3.78)**	$ 2.00
- Diluted	**$ (3.78)**	$ 1.98
Weighted average shares, in thousands:		
- Basic	**116,103**	117,595
- Diluted	**116,103**	118,405
Dividends paid per share	**$ 0.30**	$ 0.25

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) March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,131**	$ 724
Receivables, less allowance of $46 and $52 *(Note 18)*	**1,406**	2,106
Receivables from related parties *(Note 20)*	**121**	182
Inventories *(Note 12)*	**2,080**	2,492
Deferred income tax benefits *(Note 10)*	**305**	177
Other current assets	**50**	51
Total current assets	**5,093**	5,732
Investments and long-term receivables, less allowance of $10 and $10	**667**	695
Property, plant and equipment - net *(Note 8)*	**6,558**	6,676
Intangibles - net *(Note 6)*	**277**	282
Goodwill *(Note 6)*	**1,588**	1,609
Assets held for sale *(Note 5)*	**12**	211
Deferred income tax benefits *(Note 10)*	**719**	666
Other noncurrent assets	**228**	216
Total assets	**$ 15,142**	$ 16,087
Liabilities		
Current liabilities:		
Accounts payable	**$ 1,181**	$ 1,440
Accounts payable to related parties *(Note 20)*	**60**	43
Bank checks outstanding	**12**	11
Payroll and benefits payable	**825**	967
Accrued taxes *(Note 10)*	**237**	203
Accrued interest	**43**	33
Short-term debt and current maturities of long-term debt *(Note 14)*	**81**	81
Total current liabilities	**2,439**	2,778
Long-term debt, less unamortized discount *(Note 14)*	**3,043**	3,064
Employee benefits	**4,675**	4,767
Deferred credits and other liabilities	**406**	419
Total liabilities	**10,563**	11,028
Contingencies and commitments *(Note 21)*		
Stockholders Equity *(Note 19)***:**		
Common stock (123,785,911 and 123,785,911 shares issued) *(Note 11)*	**124**	124
Treasury stock, at cost (7,611,258 and 7,587,322 shares)	**(613)**	(612)
Additional paid-in capital	**2,998**	2,986
Retained earnings	**5,192**	5,666
Accumulated other comprehensive loss	**(3,322)**	(3,269)
Total United States Steel Corporation stockholders equity	**4,379**	4,895
Noncontrolling interests	**200**	164

Total liabilities and stockholders equity	**$**	**15,142**	$	16,087

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)

(Dollars in millions)	Three Months Ended March 31, 2009	2008
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net (loss) income	**$ (439)**	$ 240
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	**158**	156
Provision for doubtful accounts	**(3)**	3
Pensions and other postretirement benefits	**1**	(110)
Deferred income taxes	**(165)**	24
Net gains on disposal of assets	**(97)**	(1)
Distributions received, net of equity investees income	**28**	4
Changes in:		
Current receivables - sold	**-**	70
- repurchased	**-**	(100)
- operating turnover	**722**	(237)
Inventories	**350**	(28)
Current accounts payable and accrued expenses	**(283)**	280
Bank checks outstanding	**1**	45
Foreign currency translation	**61**	(71)
All other, net	**(25)**	(38)
Net cash provided by operating activities	**309**	237
Investing activities:		
Capital expenditures	**(118)**	(114)
Capital expenditures - variable interest entities	**(45)**	(13)
Acquisition of Stelco Inc.	**-**	(1)
Disposal of assets	**303**	4
Restricted cash, net	**(2)**	(4)
Investments, net	**(22)**	(19)
Net cash provided by (used in) investing activities	**116**	(147)
Financing activities:		
Repayment of long-term debt	**(4)**	(3)
Common stock issued	**-**	4
Common stock repurchased	**-**	(33)
Distributions from noncontrolling interests	**37**	7
Dividends paid	**(35)**	(29)
Excess tax benefits from stock-based compensation	**-**	3
Net cash used in financing activities	**(2)**	(51)
Effect of exchange rate changes on cash	**(16)**	14
Net increase in cash and cash equivalents	**407**	53

Cash and cash equivalents at beginning of year	**724**	401
Cash and cash equivalents at end of period	**$ 1,131**	$ 454

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

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

The year-end consolidated balance sheet data was derived from audited statements but does not include all disclosures required 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, 2008.

Certain reclassifications of prior year s data have been made.

2. New Accounting Standards

It is expected that the Financial Accounting Standards Board (FASB) Accounting Standards Codification(the Codification) will be effective on July 1, 2009, officially becoming the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related accounting literature. After that date, only one level of authoritative GAAP will exist. All other accounting literature will be considered non-authoritative. The Codification reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included in the Codification is relevant Securities and Exchange Commission (SEC) guidance organized using the same topical structure in separate sections within the Codification. This will have an impact to our financial statements since all future references to authoritative accounting literature will be references in accordance with the Codification.

On April 9, 2009, the FASB issued FASB Staff Position (FSP) No. 107-1 and APB 28-1 (FSP 107-1 and APB 28-1), Interim Disclosures about Fair Value of Financial Instruments. This FSP requires disclosures of fair value for any financial instruments not currently reflected at fair value on the balance sheet for all interim periods. This FSP is effective for interim and annual periods ending after June 15, 2009 and should be applied prospectively. U. S. Steel does not expect any material financial statement implications relating to the adoption of this FSP.

On April 9, 2009 the FASB issued FSP No. 115-2 and Financial Accounting Standard (FAS) 124-2 (FSP No. 115-2 and FAS 124-2), Recognition and Presentation of Other Than Temporary Impairments. This FSP is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. This FSP also requires increased and more timely disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. This FSP is effective for interim and annual periods ending after June 15, 2009 and should be applied prospectively. U. S. Steel does not expect any material financial statement implications relating to the adoption of this FSP.

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In December 2008, the FASB issued FSP No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, (FSP No. 132(R)-1). FSP No. 132(R)-1 amends FAS No. 132 to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The additional required disclosures focus on fair value by category of plan assets. This FSP is effective for fiscal years ending after December 15, 2009. We do not expect a material impact on our financial statements when these additional disclosure provisions are adopted.

In December 2008, the FASB issued FSP No. 140-4 and FASB Interpretation No. (FIN) 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities, (FSP No. 140-4 and FIN 46(R)-8). FSP No. 140-4 and FIN 46(R)-8 amends FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, and FIN 46 (revised December 2003) (FIN 46(R)), Consolidation of Variable Interest Entities, to provide additional disclosures about transfers of financial assets and involvement with variable interest entities. This FSP is effective for the first reporting period after December 15, 2008. The effect of adopting this FSP was immaterial to our financial statements.

In December 2007, the FASB issued FAS No. 141(R), Business Combinations (FAS 141(R)), which replaces FAS No. 141 Business Combinations (FAS 141). FAS 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and requires the acquirer to disclose certain information related to the nature and financial effect of the business combination. FAS 141(R) also establishes principles and requirements for how an acquirer recognizes any noncontrolling interest in the acquiree and the goodwill acquired in a business combination. FAS 141(R) was effective on a prospective basis for business combinations for which the acquisition date is on or after January 1, 2009. For any business combination that takes place subsequent to January 1, 2009, FAS 141(R) may have a material impact on our financial statements. The nature and extent of any such impact will depend upon the terms and conditions of the transaction. FAS 141(R) also amends FAS No. 109, Accounting for Income Taxes, such that adjustments made to deferred taxes and acquired tax contingencies after January 1, 2009, even for business combinations completed before this date, will impact net income. This provision of FAS 141(R) may have a material impact on our financial statements (see the discussion of deferred taxes for U. S. Steel Canada Inc. (USSC) in Note 10). On April 1, 2009 the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies, (FSP No. 141(R)-1). FSP No. 141(R)-1 amends and clarifies FAS No. 141(R) to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. U. S. Steel does not expect any material financial statement implications relating to the adoption of this FSP.

In December 2007, the FASB issued FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51 (FAS 160). FAS 160 requires all entities to report noncontrolling interests in subsidiaries (formerly known as minority interests) as a separate component of equity in the consolidated statement of financial position, to clearly identify consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income, and to provide sufficient disclosure that clearly identifies and distinguishes between the interest of the parent and the interests of noncontrolling owners. FAS 160 also establishes accounting and reporting standards for changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. FAS 160 was effective as of January 1, 2009. The effect of adopting this Statement was immaterial to our financial statements.

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In September 2006, the FASB issued FAS No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. FAS 157 was initially effective as of January 1, 2008, but in February 2008, the FASB delayed the effective date for applying this standard to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until periods beginning after November 15, 2008. We adopted FAS 157 as of January 1, 2008 for assets and liabilities within its scope and the impact was immaterial to our financial statements. As of January 1, 2009, nonfinancial assets and nonfinancial liabilities were also required to be measured at fair value. The adoption of these additional provisions did not have a material impact on our financial statements. On October 10, 2008, the FASB issued FSP No. 157-3 (FSP No. 157-3), Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. FSP No. 157-3 clarifies the application of FAS 157 in a market that is not active and provides factors to take into consideration when determining the fair value of an asset in an inactive market. FSP No. 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. This FSP did not have a material impact on our financial statements. On April 9, 2009 the FASB issued FSP FAS No. 157-4 (FSP No. 157-4), Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. This FSP is effective for interim and annual periods ending after June 15, 2009 and should be applied prospectively. U. S. Steel does not expect any material financial statement implications relating to the adoption of this FSP.

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 operating segments that do not constitute reportable segments are combined and disclosed in the Other Businesses category.

Effective with the fourth quarter of 2008, the operating results of our iron ore operations, which were previously included in Other Businesses, are included in the Flat-rolled segment. Almost all of our iron ore production is consumed by our Flat-rolled operations and the iron-ore operations are managed as part of our Flat-rolled business. The prior period has been restated to reflect this change.

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.

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The results of segment operations for the first quarter of 2009 and 2008 are:

(In millions) First Quarter 2009	Customer Sales	Intersegment Sales	Net Sales	(Loss) Income from investees	(Loss) Income from operations
Flat-rolled	**$ 1,592**	**$ 53**	**$ 1,645**	**$ (21)**	**$ (422)**
USSE	**622**	**1**	**623**	**-**	**(159)**
Tubular	**515**	**3**	**518**	**-**	**127**
Total reportable segments	**2,729**	**57**	**2,786**	**(21)**	**(454)**
Other Businesses	**21**	**41**	**62**	**-**	**(3)**
Reconciling Items	**-**	**(98)**	**(98)**	**-**	**(21)**
Total	**$ 2,750**	**$ -**	**$ 2,750**	**$ (21)**	**$ (478)**
First Quarter 2008					
Flat-rolled	$ 3,162	$ 323	$ 3,485	$ 9	$ 97
USSE	1,356	-	1,356	-	161
Tubular	621	-	621	(2)	51
Total reportable segments	5,139	323	5,462	7	309
Other Businesses	57	85	142	-	18
Reconciling Items	-	(408)	(408)	-	(61)
Total	$ 5,196	$ -	$ 5,196	$ 7	$ 266

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

(In millions)	Three Months Ended March 31, 2009	2008
Items not allocated to segments:		
Retiree benefit (expenses) income	**$ (32)**	$ 1
Other items not allocated to segments:		
Net gain on the sale of assets *(Note 5)*	**97**	-
Workforce reduction charges *(Note 7)*	**(86)**	-
Flat-rolled inventory transition effects [a]	**-**	(17)
Litigation reserve *(Note 21)*	**-**	(45)
Total other items not allocated to segments	**11**	(62)
Total reconciling items	**$ (21)**	$ (61)

[a] The impact of selling acquired inventory, which had been recorded at fair value.

4. Acquisitions

Non-controlling interests of Clairton 1314B Partnership, L.P.

On October 31, 2008, U. S. Steel acquired the interests in the Clairton 1314B Partnership, L.P. (1314B) held by unrelated parties for $104 million, and 1314B was terminated. The acquisition has been accounted for in accordance with FAS 141. U. S. Steel

accounted for the purchase price of this acquisition, in excess of the acquired noncontrolling interest, using step acquisition accounting. This resulted in a partial step-up in the book value of property, plant and equipment of $73 million, which will be depreciated over 15 years.

Pickle Lines

On August 29, 2008, USSC paid C$38 million (approximately $36 million) to acquire three pickle lines in Nanticoke, Ontario, Canada. The acquisition of the pickle lines strengthened USSC s

position as a premier supplier of flat-rolled steel products to the North American market. The acquisition has been accounted for in accordance with FAS 141. The purchase price has been allocated to the acquired property, plant and equipment.

5. Assets Held for Sale

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 in northwest Indiana. As a result of the transaction, U. S. Steel recognized a net gain of approximately $97 million, net of a $10 million pension curtailment charge (see Note 7), in the first quarter 2009. As of December 31, 2008, the assets of EJ&E that were to be sold, consisting primarily of property, plant and equipment, were classified as held for sale in accordance with FAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets.

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment for the three months ended March 31, 2009 are as follows:

	Flat-rolled Segment	**Tubular Segment**	**Total**
Balance at December 31, 2008	$ 760	$ 849	$ 1,609
Currency translation	**(21)**	-	**(21)**
Balance at March 31, 2009	**$ 739**	**$ 849**	**$ 1,588**

Goodwill represents the excess of the cost over the fair value of acquired identifiable tangible and intangible assets and liabilities assumed from businesses acquired. 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. The evaluation of impairment involves comparing the fair value of the associated reporting unit to its carrying value, including goodwill. Fair value is determined using the income approach, which is based on projected future cash flows discounted to present value using factors that consider the timing and the risk associated with the future cash flows. Using data prepared each year as part of our strategic planning process, we complete a separate fair value analysis for each reporting unit with goodwill.

We have two reporting units that have a significant amount of goodwill. Our Flat-rolled operating segment was allocated goodwill from the Stelco and Lone Star acquisitions in 2007. These amounts reflect the benefits we expect the Flat-rolled reporting unit to realize from expanding our flexibility in meeting our customers needs and running our Flat-rolled facilities at higher operating rates to source our semi-finished product needs. Our Texas Operations reporting unit was allocated goodwill from the Lone Star acquisition, reflecting the benefits we expect the reporting unit to realize from expanding our tubular operations.

The change in business conditions in the fourth quarter of 2008 was considered a triggering event as defined by FAS 142, Goodwill and Other Intangible Assets, and goodwill was subsequently tested for impairment as of December 31, 2008. Fair value for the Flat-rolled and Texas Operations reporting units was estimated using future cash flow projections based on management s long range estimates of market conditions over a five-year horizon with a

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2.25 percent compound annual growth rate thereafter. We used a discount rate of approximately 11 percent for both reporting units. Our testing did not indicate that goodwill was impaired for either reporting unit as of December 31, 2008.

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

		As of March 31, 2009			As of December 31, 2008		
(In millions)	**Useful Lives**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Amount**
Customer relationships	22-23 Years	**$ 202**	**$ 15**	**$ 187**	$ 204	$ 14	$ 190
Other	2-20 Years	**25**	**10**	**15**	25	8	17
Total amortizable intangible assets		**$ 227**	**$ 25**	**$ 202**	$ 229	$ 22	$ 207

The carrying amount of acquired water rights with indefinite lives as of March 31, 2009 and December 31, 2008 totaled $75 million.

Aggregate amortization expense was $3 million for both the three months ended March 31, 2009 and 2008, respectively. The estimated future amortization expense of identifiable intangible assets during the next five years is (in millions) $9 for the remaining portion of 2009, $10 in 2010, $10 in 2011, $10 in 2012, and $10 in 2013.

7. Pensions and Other Benefits

The following table reflects components of net periodic benefit cost for the three months ended March 31, 2009 and 2008:

	Pension Benefits		Other Benefits	
(In millions)	**2009**	**2008**	**2009**	**2008**
Service cost	**$ 26**	$ 30	**$ 5**	$ 4
Interest cost	**142**	143	**62**	56
Expected return on plan assets	**(175)**	(200)	**(27)**	(24)
Amortization of prior service cost	**6**	6	**6**	(8)
Amortization of net loss	**35**	26	**(2)**	6
Net periodic benefit cost, excluding below	**34**	5	**44**	34
Multiemployer plans	**12**	8	**-**	-
Settlement, termination and curtailment benefits	**63**	1	**11**	-
Net periodic benefit cost	**$ 109**	$ 14	**$ 55**	$ 34

Postemployment Benefits

U. S. Steel recorded charges of $90 million in the first quarter of 2009 related to the recognition of estimated future employee costs for supplemental unemployment benefits, salary continuance and continuation of health care benefits and life insurance coverage for approximately 9,400 employees associated with the temporary idling of certain facilities and reduced production at others. This charge has been recorded in accordance with FAS No. 112, Employers Accounting

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for Postemployment Benefits, which requires that costs associated with such ongoing benefit arrangements be recorded no later than the period when it becomes probable that the costs will be incurred and the costs are reasonably estimable.

Settlements, Terminations and Curtailments

During the first quarter of 2009, approximately 500 non-represented employees in the United States elected to retire under a Voluntary Early Retirement Program (VERP). Employee severance and net employee benefit charges of $86 million (including $37 million of pension termination charges, $13 million of pension settlement charges, $3 million of pension curtailment charges and $11 million of other postretirement benefit termination charges) were recorded in cost of sales for these employees in the first quarter of 2009. As of March 31, 2009, substantially all of these employees left the Company under the VERP and the Company paid cash benefits of $58 million, including $13 million of company contributions to the defined contribution plans as discussed below.

In connection with the sale of the majority of EJ&E on January 31, 2009 (see Note 5), a pension curtailment charge of approximately $10 million was recognized in the first quarter of 2009.

Employer Contributions

During the first three months of 2009, U. S. Steel made $17 million in required cash contributions to the main USSC pension plans and cash payments of $17 million to the Steelworkers Pension Trust.

The 2008 Collective Bargaining Agreements (see Note 16) require U. S. Steel to make annual $75 million contributions during the contract period to a restricted account within our trust for retiree health care and life insurance. The first of these payments was made in the fourth quarter of 2008. The contracted annual $75 million contribution is in addition to the minimum $10 million required contribution to the same trust that continues from an earlier agreement. There was a $10 million contribution to this trust during the first three months of 2009. In April 2009, we reached agreement with the USW to defer $95 million of contributions otherwise required to be made during 2009 and the beginning of 2010 until 2012 and 2013. Further, the USW has agreed to permit us to use all or part of the $75 million contribution we made in 2008 to pay current retiree health care and death benefit claims, subject to a make-up contribution in 2013.

As of March 31, 2009, cash payments of $74 million had been made for other postretirement benefit payments not funded by trusts.

Company contributions to defined contribution plans totaled $17 million for the three months ended March 31, 2009, which included $13 million of one-time payments for VERP related benefits. Company contributions to defined contribution plans totaled $8 million for the three months ended March 31, 2008. Effective January 1, 2009, the company match of employee 401(k) contributions was temporarily suspended.

8. Depreciation and Depletion

Effective January 1, 2009, U. S. Steel discontinued the use of the modified straight-line basis of depreciation for certain steel-related assets located in the United States based upon raw steel production levels and records depreciation on a straight-line basis for all assets. In the first quarter 2009, the modified straight-line basis of depreciation would have reduced our loss from operations, net loss and loss per common share by $13 million, $8 million and $.07, respectively. Applying modification factors decreased expenses by $3 million for the first quarter 2008 when compared to a straight-line calculation.

Accumulated depreciation and depletion totaled $8,721 million and $8,669 million at March 31, 2009 and December 31, 2008, respectively.

9. Net Interest and Other Financial Costs

Other financial costs include foreign currency gains and losses as a result of transactions denominated in currencies other than the functional currencies of U. S. Steel s operations. During the first quarter 2009, net foreign currency losses of $34 million were recorded in other financial costs, compared with net foreign currency gains of $76 million in the first quarter of 2008. See Note 13 for additional information on U. S. Steel s foreign currency exchange activity.

10. Income Taxes

Tax benefits

The first quarter 2009 effective tax benefit rate of 20 percent is lower than the statutory rate because losses in Canada and Serbia, which are jurisdictions where we have recorded a full valuation allowance on deferred tax assets, do not generate a tax benefit for accounting purposes. Included in the first quarter 2009 tax benefit is $35 million of tax expense related to the net gain on the sale of EJ&E.

Deferred taxes

As of March 31, 2009, the net domestic deferred tax asset was $930 million compared to $802 million at December 31, 2008. A substantial amount of U. S. Steel s domestic deferred tax assets relate 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 payments are made to retirees. As a result of our cumulative historical earnings, we continue to believe it is more likely than not that the net domestic deferred tax assets will be realized.

As of March 31, 2009, the foreign deferred tax asset was $94 million, net of an established valuation allowance of $352 million. As of December 31, 2008, the foreign deferred tax asset was $32 million, net of an established valuation allowance of $281 million. Net foreign deferred tax assets will fluctuate as the value of the U.S. dollar changes with respect to the euro, the Canadian dollar and the Serbian dinar. A full valuation allowance is provided for the Serbian deferred tax assets because current projected investment tax credits, which must be used before net operating losses and credit carryforwards, are more than sufficient to offset future tax liabilities. A full valuation allowance is recorded for Canadian deferred tax assets due to the absence of positive evidence at USSC to support the realizability of the assets. If USSC and USSS generate sufficient income, the valuation allowances of $289 million for Canadian deferred tax assets and $49 million for Serbian deferred tax assets as of March 31, 2009, would be partially or fully reversed at such time that it is more likely than not that the company will realize the deferred tax assets. In accordance with FAS 141(R), any reversals of these amounts made after January 1, 2009 will result in a decrease to tax expense.

Unrecognized tax benefits

The total amount of unrecognized tax benefits was $93 million and $99 million as of March 31, 2009 and December 31, 2008, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $80 million and $83 million as of March 31, 2009 and December 31, 2008, respectively. 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 FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.

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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 March 31, 2009 and December 31, 2008, U. S. Steel had accrued liabilities of $4 million for interest related to uncertain tax positions. U. S. Steel currently does not have a liability for tax penalties.

11. Common Shares and Income Per Common Share

Common Stock Repurchase Program

In the fourth quarter of 2008, U. S. Steel suspended the previously approved Common Stock Repurchase Program. At March 31, 2009, the repurchase of an additional 4,446,400 shares remains authorized. During the first quarter of 2008, 305,000 shares of common stock were repurchased for $33 million.

Net Income Attributable to United States Steel Corporation Shareholders

Basic net income per common share is based on the weighted average number of common shares outstanding during the quarter.

Diluted net income per common share assumes the exercise of stock options and the vesting of restricted stock, restricted stock units, and performance shares, provided in each case the effect is dilutive. Due to the net loss position for the first quarter of 2009, no securities were included in the computation of diluted net loss per share because the effect would be antidilutive. For the first quarter ended March 31, 2008, 809,926 shares of common stock, related to stock options, restricted stock and performance shares have been included in the computation of diluted net income per share because their effect was dilutive.

Dividends Paid Per Share

The dividend rate for the first quarter of 2009 was 30 cents per common share. The dividend rate was 25 cents per common share for the first quarter of 2008.

12. Inventories

Inventories are carried at the lower of cost or market on a worldwide basis. The first-in, first-out method is the predominant method of inventory costing for USSC and USSE. The last-in, first-out (LIFO) method is the predominant method of inventory costing in the United States. At March 31, 2009 and December 31, 2008, the LIFO method accounted for 46 percent and 39 percent of total inventory values, respectively.

(In millions)	March 31, 2009	December 31, 2008
Raw materials	**$ 1,106**	$ 1,322
Semi-finished products	**433**	552
Finished products	**415**	518
Supplies and sundry items	**126**	100
Total	**$ 2,080**	$ 2,492

Current acquisition costs were estimated to exceed these inventory values by $1.1 billion at both March 31, 2009 and December 31, 2008. Cost of sales was reduced by $38 million and $17 million in the first quarter of 2009 and the first quarter of 2008, respectively, as a result of liquidations of LIFO inventories.

Inventory includes $97 million and $96 million of land held for residential or commercial development as of March 31, 2009 and December 31, 2008, respectively.

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U. S. Steel has coke swap agreements with other steel manufacturers designed to reduce transportation costs. U. S. Steel did not ship or receive any coke under the swap agreements during the first three months of 2009. U. S. Steel shipped approximately 285,000 tons and received approximately 222,000 tons of coke under the swap agreements during the first three months of 2008.

U. S. Steel also has iron ore pellet swap agreements with an iron ore mining and processing company to obtain iron ore pellets that meet U. S. Steel s specifications. U. S. Steel shipped and received approximately 101,000 tons of iron ore pellets during the first three months of 2009. U. S. Steel shipped and received approximately 437,000 tons of iron ore pellets during the first three months of 2008.

The coke and iron ore pellet swaps are recorded at cost in accordance with APB 29, Accounting for Nonmonetary Transactions and FAS No. 153, Exchanges of Nonmonetary Assets. There was no income statement impact related to these swaps in either 2009 or 2008.

13. Derivative Instruments

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). FAS 161 amends and expands the disclosure requirements of FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), to provide qualitative and quantitative information on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. FAS 161 was effective for U. S. Steel as of January 1, 2009; however, we chose to early adopt FAS 161 in the first quarter of 2008.

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, euros and Serbian dinars. On June 19, 2008, the European Council approved the Slovak Republic s entry into the Eurozone as of January 1, 2009. Prior to Slovakia s entry into the Eurozone, the USSE segment also had foreign currency exchange risks related to fluctuations between the Slovak koruna and the euro. USSC s revenues are denominated in both Canadian and U.S. dollars. While the majority of USSC s costs are in Canadian dollars, it makes significant raw material purchases in U.S. dollars. In addition, the acquisition of USSC was funded both from the United States and through the reinvestment of undistributed earnings from USSE, creating intercompany monetary assets and liabilities in currencies other than the functional currency of the entities involved, which can impact income when remeasured at the end of each quarter. An $820 million U.S. dollar-denominated intercompany loan (the Intercompany Loan) to a European subsidiary was the primary exposure at March 31, 2009.

U. S. Steel holds or purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk. U. S. Steel uses euro forward sales contracts with maturities no longer than 18 months to exchange euros for U.S. dollars to manage our exposure to foreign currency rate fluctuations. The gains and losses recognized on these euro forward sales contracts may partially offset gains and losses recognized on the Intercompany Loan.

As of March 31, 2009, U. S. Steel held euro forward sales contracts with a total notional value of approximately $260 million. We mitigate the risk of concentration of counterparty credit risk by purchasing our forward sales contracts from several counterparties.

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FAS 133 requires derivative instruments to be recognized at fair value in the balance sheet. U. S. Steel has not elected to designate these forward contracts as hedges under FAS 133. Therefore, changes in the fair value of the forward contracts are recognized immediately in the results of operations.

Additionally, we routinely enter into contracts to hedge a portion of our purchase commitments for natural gas to lower our financial exposure related to commodity price fluctuations. As part of this strategy, we routinely utilize fixed-price forward physical purchase contracts. Historically, these forward physical purchase contracts have qualified for the normal purchases and normal sales exemption under FAS 133. However, due to reduced natural gas consumption, we have begun to net settle some of the excess natural gas purchase contracts. Therefore, some of these contracts no longer meet the exemption criteria and are therefore subject to mark-to-market accounting. As of March 31, 2009, U. S. Steel held commodity contracts for natural gas with a total notional value of approximately $97 million that are subject to mark-to-market accounting. As of March 31, 2008, all contracts qualified for the normal purchase normal sales exemption under FAS 133 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 March 31, 2009 and December 31, 2008 and for the three months ended March 31, 2009 and March 31, 2008:

(In millions)	**Location of Fair Value in Balance Sheet**	**Fair Value March 31, 2009**	**Fair Value December 31, 2008**
Foreign exchange forward contracts	Accounts receivable	$ 5	$ 14
Forward physical purchase contracts	Accounts payable	$ 61	$ 18

	Location of Gain (Loss) on Derivative in Statement of Operations	**Amount of Gain (Loss) Three Months ended March 31, 2009**	**Amount of Gain (Loss) Three Months ended March 31, 2008**
Foreign exchange forward contracts	Other financial costs	$ 22	$ (29)
Forward physical purchase contracts	Cost of Sales	$ (49)	N/A

In accordance with FAS 157, the fair value of our foreign exchange forward contracts is 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. The fair value of our forward physical purchase contracts for natural gas is also determined using Level 2 inputs. The inputs used include forward prices derived from the New York Mercantile Exchange.

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14. Debt

(In millions)	**Interest Rates %**	**Maturity**	**March 31, 2009**	**December 31, 2008**
2037 Senior Notes	6.65	2037	**$ 350**	$ 350
2018 Senior Notes	7.00	2018	**500**	500
2017 Senior Notes	6.05	2017	**450**	450
2013 Senior Notes	5.65	2013	**300**	300
Five-year Term Loan	Variable	2009 2012	**475**	475
Three-year Term Loan	Variable	2009 2010	**180**	180
Province Note (C$150 million)	1.00	2015	**119**	122
Environmental Revenue Bonds	4.75 6.25	2009 2016	**458**	458