UNITED STATES STEEL CORP
Form 10-Q
April 30, 2014

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, 2014
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 April 24, 2014 – 144,701,759 shares

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UNITED STATES STEEL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
(Dollars in millions, except per share amounts)	2014	2013
Net sales:		
Net sales	$4,169	$4,317
Net sales to related parties (Note 18)	279	278
Total	4,448	4,595
Operating expenses (income):		
Cost of sales (excludes items shown below)	4,038	4,242
Selling, general and administrative expenses	138	145
Depreciation, depletion and amortization	166	171
Loss (income) from investees	4	(8)
Net (gain) loss on disposal of assets (Note 20)	(20)	1
Other expense, net	—	6
Total	4,326	4,557
Income from operations	122	38
Interest expense	61	85
Interest income	(1)	(1)
Other financial costs	9	20
Net interest and other financial costs (Note 6)	69	104
Income (loss) before income taxes and noncontrolling interests	53	(66)
Income tax provision (Note 8)	1	7
Net income (loss)	52	(73)
Less: Net income attributable to noncontrolling interests	—	—
Net income (loss) attributable to United States Steel Corporation	$52	$(73)
Earnings per common share (Note 10):		
Earnings per share attributable to United States Steel Corporation shareholders:		
-Basic	$0.36	$(0.51)
-Diluted	$0.34	$(0.51)

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 March 31,	
(Dollars in millions)	2014	2013
Net income (loss)	$52	$(73)
Other comprehensive income (loss), net of tax:		
Changes in foreign currency translation adjustments	(2)	(37)
Changes in pension and other employee benefit accounts	50	69
Total other comprehensive income, net of tax	48	32
Comprehensive income (loss) including noncontrolling interest	100	(41)
Comprehensive income attributable to noncontrolling interest	—	—
Comprehensive income (loss) attributable to United States Steel Corporation	$100	$(41)

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

UNITED STATES STEEL CORPORATION
CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$1,099	$604
Receivables, less allowance of $55 and $53	2,064	1,818
Receivables from related parties (Note 18)	136	157
Inventories (Note 11)	2,411	2,688
Income tax receivable (Note 8)	184	185
Deferred income tax benefits (Note 8)	499	576
Other current assets	87	50
Total current assets	6,480	6,078
Property, plant and equipment	16,722	16,799
Less accumulated depreciation and depletion	10,931	10,877
Total property, plant and equipment, net	5,791	5,922
Investments and long-term receivables, less allowance of $10 in both periods	607	621
Intangibles – net (Note 4)	266	271
Deferred income tax benefits (Note 8)	20	16
Other noncurrent assets	230	235
Total assets	$13,394	$13,143
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	$1,890	$1,681
Accounts payable to related parties (Note 18)	110	73
Bank checks outstanding	26	—
Payroll and benefits payable	977	974
Accrued taxes	135	140
Accrued interest	78	54
Short-term debt and current maturities of long-term debt (Note 13)	323	323
Total current liabilities	3,539	3,245
Long-term debt, less unamortized discount (Note 13)	3,615	3,616
Employee benefits	1,964	2,064
Deferred income tax liabilities (Note 8)	403	445
Deferred credits and other noncurrent liabilities	422	424
Total liabilities	9,943	9,794
Contingencies and commitments (Note 20)		
Stockholders' Equity (Note 16):		
Common stock (150,925,911 shares issued) (Note 10)	151	151
Treasury stock, at cost (6,232,397 and 6,245,666 shares)	(479)	(480)
Additional paid-in capital	3,675	3,667
Retained earnings	1,807	1,762
Accumulated other comprehensive loss (Note 17)	(1,704)	(1,752)
Total United States Steel Corporation stockholders' equity	3,450	3,348
Noncontrolling interests	1	1
Total liabilities and stockholders' equity	$13,394	$13,143

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

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

(Dollars in millions)	Three Months Ended March 31, 2014	2013
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net income (loss)	$52	$(73)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	166	171
Provision for doubtful accounts	2	(1)
Pensions and other postretirement benefits	(16)	(11)
Deferred income taxes	4	4
Net (gain) loss on disposal of assets (Note 20)	(20)	1
Currency remeasurement loss	7	19
Distributions received, net of equity investees loss (income)	4	(5)
Changes in:		
Current receivables	(232)	(203)
Inventories	260	166
Current accounts payable and accrued expenses	335	135
Income taxes receivable/payable	2	(16)
Bank checks outstanding	26	33
All other, net	(20)	13
Net cash provided by operating activities	570	233
Investing activities:		
Capital expenditures	(90)	(116)
Disposal of assets	19	—
Change in restricted cash, net	6	27
Investments, net	(1)	(3)
Net cash used in investing activities	(66)	(92)
Financing activities:		
Issuance of long-term debt, net of financing costs	—	578
Repayment of long-term debt	—	(542)
Dividends paid	(7)	(7)
Net cash (used in) provided by financing activities	(7)	29
Effect of exchange rate changes on cash	(2)	(7)
Net increase in cash and cash equivalents	495	163
Cash and cash equivalents at beginning of year	604	570
Cash and cash equivalents at end of period	$1,099	$733

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

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

United States Steel Corporation (U. S. Steel) 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 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 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 year ended December 31, 2013 which should be read in conjunction with these financial statements.

2. New Accounting Standards

On February 28, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date (ASU 2013-04). ASU 2013-04 requires companies to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount a company has agreed to pay on the basis of its arrangement among its co-obligors and any additional amount a company expects to pay on behalf of its co-obligors. ASU 2013-04 also requires a company to disclose the nature and amount of the obligation as well as other information about those obligations. ASU 2013-04 was effective for interim and annual periods beginning after December 31, 2013. The adoption did not have a significant impact on U. S. Steel’s consolidated financial statements.

On March 4, 2013, the FASB issued Accounting Standards Update No. 2013-05, Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries of Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05). ASU 2013-05 applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in ASU 2013-05 resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. ASU 2013-05 was effective for interim and annual periods beginning after December 31, 2013. The adoption did not have a significant impact on U. S. Steel’s consolidated financial statements.

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 was 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. The adoption did not have a significant impact on U. S. Steel's consolidated financial statements.

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, which include railroad services and real estate operations, are combined and disclosed in the Other Businesses category.

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 March 31, 2014 and 2013 are:

(In millions) First Quarter 2014	Customer Sales	Intersegment Sales	Net Sales	Income (loss) from investees	Income (loss) from operations
Flat-rolled	$3,027	$303	$3,330	$(6)	$85
USSE	759	1	760	—	32
Tubular	643	1	644	2	24
Total reportable segments	4,429	305	4,734	(4)	141
Other Businesses	19	34	53	—	13
Reconciling Items and Eliminations	—	(339)	(339)	—	(32)
Total	$4,448	$—	$4,448	$(4)	$122
First Quarter 2013					
Flat-rolled	$3,103	$335	$3,438	$10	$(13)
USSE	783	1	784	—	38
Tubular	686	1	687	(1)	64
Total reportable segments	4,572	337	4,909	9	89
Other Businesses	23	34	57	(1)	5
Reconciling Items and Eliminations	—	(371)	(371)	—	(56)
Total	$4,595	$—	$4,595	$8	$38

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

	Three Months Ended March 31,	
(In millions)	2014	2013
Items not allocated to segments:		
Postretirement benefit expense [a]	$(32)	$(56)
Total reconciling items	$(32)	$(56)

[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. Goodwill and Intangible Assets

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 the carrying value may not be recoverable. The evaluation of goodwill impairment involves using either a qualitative or quantitative approach as outlined in Accounting Standards Codification (ASC) Topic 350. U. S. Steel completed its annual goodwill impairment evaluation using the two-step quantitative analysis during the third quarter of 2013. We had two reporting units that included nearly all of our goodwill: our Flat-rolled reporting unit and our Texas Operations reporting unit, which is part of our Tubular operating segment. The results of the second step analysis showed the implied fair value of goodwill was zero for both of our reporting units and therefore, in 2013, U. S. Steel recorded a goodwill impairment charge of $969 million and $837 million for the Flat-rolled reporting unit and the Texas Operations reporting unit.

As a result of this goodwill impairment charge, there is no goodwill remaining within the Flat-rolled and Tubular segments. Goodwill remaining on our consolidated balance sheet at March 31, 2014 is $4 million and is included as a component of other noncurrent assets.

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

		As of March 31, 2014			As of December 31, 2013		
(In millions)	Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	22-23 Years	$212	$64	$148	$215	$63	$152
Other	2-20 Years	23	13	10	23	12	11
Total amortizable intangible assets		$235	$77	$158	$238	$75	$163

The carrying amount of acquired water rights with indefinite lives as of March 31, 2014 and December 31, 2013 totaled $75 million. The water rights are tested for impairment annually in the third quarter. U. S. Steel performed a qualitative impairment evaluation of its water rights for 2013. The 2013 and prior year tests indicated the water rights were not impaired.

During 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. 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. The liability for contingent consideration will be reassessed each quarter. The maximum potential liability for contingent consideration is $53 million. As of March 31, 2014, U. S. Steel has recorded a liability of $24 million to reflect the estimated fair value of the contingent consideration. Contingent consideration was valued using a probability weighted discounted cash flow using both Level 2 inputs based on 2013 Standard and Poor’s Bond Guide as well Level 3, significant other unobservable inputs, based on internal forecasts and the weighted average cost of capital derived from market data.

Identifiable intangible assets with finite lives are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. During the third quarter of 2013, U. S. Steel completed a review of its identifiable intangible assets with finite lives and determined that the assets were not impaired.

Amortization expense was $2 million in the three months ended March 31, 2014 and $3 million in the three months ended March 31, 2013. The estimated future amortization expense of identifiable intangible assets during the next five years is $8 million for the remaining portion of 2014, $11 million each year from 2015 to 2017, and $10 million for 2018.

5. Pensions and Other Benefits

The following table reflects the components of net periodic benefit cost for the three months ended March 31, 2014 and 2013:

	Pension Benefits		Other Benefits	
(In millions)	2014	2013	2014	2013
Service cost	$27	$32	$6	$7
Interest cost	109	101	36	35
Expected return on plan assets	(153)	(154)	(35)	(33)
Amortization of prior service cost	6	6	(3)	(3)
Amortization of actuarial net loss	70	92	(1)	8
Net periodic benefit cost, excluding below	59	77	3	14
Multiemployer plans	18	18	—	—
Settlement, termination and curtailment losses	$7	$—	$—	$—
Net periodic benefit cost	$84	$95	$3	$14

Employer Contributions

During the first three months of 2014, U. S. Steel made $19 million in required cash contributions to the U. S. Steel Canada (USSC) pension plans, cash payments of $17 million to the Steelworkers' Pension Trust and $19 million of pension payments not funded by trusts.

During the first three months of