

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

UNITED STATES STEEL CORP  
Form 10-Q/A  
January 27, 2004

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

FORM 10-Q/A

(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, 2003

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

UNITED STATES STEEL CORPORATION

-----  
(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..X..No.....

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes..X..No.....

Common stock outstanding at October 31, 2003 - 103,277,374 shares

EXPLANATORY NOTE

This amendment is to amend Item 1 of Part I and Item 1 of Part II of the registrant's report on Form 10-Q for the quarterly period ended September 30, 2003 to amend the description of the allocation of the purchase price in footnote 3 to the financial statements and to revise the disclosure regarding asbestos litigation. The full text of Item 1 of Part I and Item 1 of Part II are set forth in this Amendment to Form 10-Q.

2

Part I - Financial Information:

UNITED STATES STEEL CORPORATION  
STATEMENT OF OPERATIONS (Unaudited)

	Third Qu Ende Septemb 2003	\$
(Dollars in millions, except per share amounts)		
-----		
REVENUES AND OTHER INCOME:		
Revenues.....	\$ 2,267	\$
Revenues from related parties.....	239	
Income (loss) from investees.....	(2)	
Net gains on disposal of assets.....	4	
Other income.....	-	
	-----	
Total revenues and other income.....	2,508	
	-----	
COSTS AND EXPENSES:		
Cost of revenues (excludes items shown below).....	2,743	
Selling, general and administrative expenses.....	319	
Depreciation, depletion and amortization.....	140	
	-----	
Total costs and expenses.....	3,202	
	-----	
INCOME (LOSS) FROM OPERATIONS.....	(694)	
Net interest and other financial costs.....	26	
	-----	
INCOME (LOSS) BEFORE INCOME TAXES, EXTRAORDINARY LOSS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....	(720)	
Provision (benefit) for income taxes.....	(366)	
	-----	
INCOME (LOSS) BEFORE EXTRAORDINARY LOSS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....	(354)	
Extraordinary loss, net of tax.....	-	

**Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A**

Cumulative effect of change in accounting principle, net of tax.....	-	
	-----	
NET INCOME (LOSS).....	(354)	
Dividends on preferred stock.....	(4)	
	-----	
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK.....	\$ (358)	\$
	=====	

Selected notes to financial statements appear on pages 7-32.

UNITED STATES STEEL CORPORATION  
STATEMENT OF OPERATIONS (Continued) (Unaudited)  
COMMON STOCK DATA

		Third Qua	
		Ended	
		September	
		2003	
(Dollars in millions, except per share amounts)			
-----			
COMMON STOCK DATA:			
Per share - basic and diluted:			
Income (loss) before extraordinary loss and cumulative effect of change in accounting principle.....	\$ (3.47)	\$	
Extraordinary loss, net of tax.....	-		
Cumulative effect of change in accounting principle, net of tax.....	-		
	-----		
Net income (loss).....	\$ (3.47)	\$	
	=====		
Weighted average shares, in thousands			
- Basic.....	103,321		1
- Diluted.....	103,321		1
Dividends paid per share.....	\$ .05	\$	
PRO FORMA AMOUNTS ASSUMING CHANGE IN ACCOUNTING PRINCIPLE WAS APPLIED RETROACTIVELY:			
Income (loss) before extraordinary loss and cumulative effect of change in accounting principle, as reported.....	\$ (354)	\$	
SFAS No. 143 pro forma effect.....	-		
	-----		
Income (loss) before extraordinary loss and cumulative effect of change in accounting principle, adjusted.....	\$ (354)	\$	
Per share adjusted - basic and diluted.....	(3.47)		
Net income (loss) adjusted.....	(354)		

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

Per share adjusted - basic and diluted..... (3.47)

Selected notes to financial statements appear on pages 7-32.

UNITED STATES STEEL CORPORATION  
BALANCE SHEET (Unaudited)

(Dollars in millions)	September 30 2003
<hr/>	
ASSETS	
Current assets:	
Cash and cash equivalents.....	\$ 160
Receivables, less allowance of \$129 and \$57.....	1,126
Receivables from related parties.....	148
Inventories.....	1,394
Deferred income tax benefits.....	203
Other current assets.....	35
	<hr/>
Total current assets.....	3,066
Investments and long-term receivables, less allowance of \$3 and \$2.....	303
Long-term receivables from related parties.....	6
Property, plant and equipment, less accumulated depreciation, depletion and amortization of \$7,089 and \$7,095.....	3,367
Pension asset.....	1,518
Intangible pension asset.....	374
Other intangible assets, net.....	39
Deferred income tax benefits.....	366
Other noncurrent assets.....	202
	<hr/>
Total assets.....	\$ 9,241
	<hr/> <hr/>
LIABILITIES	
Current liabilities:	
Accounts payable.....	\$ 940
Accounts payable to related parties.....	72
Payroll and benefits payable.....	420
Accrued taxes.....	344
Accrued interest.....	49
Long-term debt due within one year.....	28
	<hr/>
Total current liabilities.....	1,853
Long-term debt, less unamortized discount.....	1,853
Deferred income taxes.....	2
Employee benefits.....	3,539

**Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A**

Deferred credits and other liabilities.....	349
	-----
Total liabilities.....	7,596
	-----
Contingencies and commitments (See Note 23).....	-
STOCKHOLDERS' EQUITY	
Preferred stock -	
7% Series B Mandatory Convertible	
Preferred issued - 5,000,000 shares	
and -0- shares (no par value, liquidation	
preference \$50 per share).....	231
Common stock issued - 103,296,600 shares and	
102,485,246 shares.....	103
Additional paid-in capital.....	2,679
Retained earnings (deficit).....	(399)
Accumulated other comprehensive loss.....	(968)
Deferred compensation.....	(1)
	-----
Total stockholders' equity.....	1,645
	-----
Total liabilities and stockholders' equity.....	\$ 9,241
	=====

Selected notes to financial statements appear on pages 7-32.

UNITED STATES STEEL CORPORATION  
STATEMENT OF CASH FLOWS (Unaudited)

(Dollars in millions)

-----	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
OPERATING ACTIVITIES:	
Net income (loss).....	\$ (4)
Adjustments to reconcile to net cash provided from	
operating activities:	
Extraordinary loss, net of tax.....	
Cumulative effect of change in accounting principle, net of tax.....	
Depreciation, depletion and amortization.....	3
Pensions and other postretirement benefits.....	6
Deferred income taxes.....	(4)
Net gains on disposal of assets.....	(
Income from sale of coal seam gas interests.....	(
Loss (income) from equity investees and distributions received.....	
Changes in:	
Current receivables	
- sold.....	1
- repurchased.....	(1)
- operating turnover.....	(
Inventories.....	1
Current accounts payable and accrued expenses.....	2

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

All other - net.....	(1)
Net cash provided from operating activities.....	3
INVESTING ACTIVITIES:	
Capital expenditures.....	(2)
Acquisition - National Steel Corporation assets.....	(8)
- U. S. Steel Balkan.....	(
- U. S. Steel Kosice .....	(
Disposal of assets.....	
Sale of coal seam gas interests.....	
Restricted cash - withdrawals.....	(
- deposits .....	(
Investees - investments .....	
- loans and advances .....	
- repayments of loans and advances.....	
Net cash used in investing activities.....	(1,0)
FINANCING ACTIVITIES:	
Issuance of long-term debt, net of deferred financing costs.....	4
Repayment of long-term debt.....	
Settlement with Marathon Oil Corporation.....	
Preferred stock issued.....	2
Common stock issued.....	(
Dividends paid.....	(
Net cash provided from financing activities.....	6
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	
NET DECREASE IN CASH AND CASH EQUIVALENTS.....	(
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	2
CASH AND EQUIVALENTS AT END OF PERIOD.....	\$ 1
Cash used in operating activities included:	
Interest and other financial costs paid (net of amount capitalized).....	\$ (1
Income taxes paid to tax authorities.....	

Selected notes to financial statements appear on pages 7-32.

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS

(Unaudited)

- The 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 selected 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

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

required by accounting principles generally accepted in the United States of America for complete financial statements. Certain reclassifications of prior year data have been made to conform to 2003 classifications. Additional information is contained in the United States Steel Corporation Annual Report on Form 10-K for the year ended December 31, 2002.

2. United States Steel Corporation (U. S. Steel) is engaged domestically in the production, sale and transportation of steel mill products, coke and taconite pellets (iron ore); steel mill products distribution; the management of mineral resources; the management and development of real estate; and engineering and consulting services and, through U. S. Steel Kosice (USSK) and U. S. Steel Balkan (USSB) in the Slovak Republic and Serbia, respectively, in the production and sale of steel mill products and coke primarily for the central and western European markets. As reported in Note 5, until June 30, 2003, U. S. Steel was also engaged in the mining, processing and sale of coal.
3. On May 20, 2003, U. S. Steel acquired substantially all of the integrated steelmaking assets of National Steel Corporation (National). The facilities acquired include two integrated steel plants, Granite City in Granite City, Illinois and Great Lakes, in Ecorse and River Rouge, Michigan; the Midwest finishing facility in Portage, Indiana; ProCoil, a steel-processing facility in Canton, Michigan; a 50% equity interest in Double G Coatings, L.P. near Jackson, Mississippi; a taconite pellet operation near Keewatin, Minnesota; and the Delray Connecting Railroad. The acquisition of National's assets has made U. S. Steel the largest steel producer in North America and has strengthened U. S. Steel's overall position in providing value-added products to the automotive, container and construction markets. Results of operations include the operations of National from May 20, 2003.

The aggregate purchase price for National's assets was \$1,269 million, consisting of \$839 million in cash and the assumption or recognition of \$430 million in liabilities. The \$839 million in cash reflects \$844 million paid to National at closing and transaction costs of \$29 million, less a working capital adjustment of \$34 million in accordance with the terms of the Asset Purchase Agreement. The working capital adjustment was collected in October 2003. The opening balance sheet reflects certain direct obligations of National assumed by U. S. Steel and certain employee benefit liabilities for employees hired from National resulting from the new labor agreement with the United Steelworkers of America (USWA). The new labor agreement and these liabilities are discussed in more detail below.

7

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

3. (Continued)

In connection with the acquisition of National's assets, U. S. Steel reached a new labor agreement with the USWA, which covers employees at the U. S. Steel facilities and the acquired National facilities. The agreement was ratified by the USWA membership in May 2003, expires in 2008 and provides for a workforce restructuring through a Transition

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

Assistance Program (TAP). U. S. Steel calculated the estimated fair value of the obligations recorded for benefits granted under the labor agreement to former active National employees represented by the USWA and hired by U. S. Steel. The liabilities included \$145 million for future retiree medical and retiree life costs, \$17 million related to future payments for employees who participate in the TAP, and \$24 million for accrued vacation benefits. U. S. Steel also recognized a \$17 million liability related to two irrevocable cash contributions to be made to the Steelworkers Pension Trust (SPT) in 2003 and 2004 based on the number of National's represented employees as of the date of the acquisition, less the number of these employees estimated to participate in the TAP. The SPT is a multiemployer pension plan to which U. S. Steel will make contributions for all former National represented employees who join U. S. Steel and, after July 1, 2003, for all new U. S. Steel employees represented by the USWA.

The following is a summary of the allocation of the purchase price to the assets acquired and liabilities assumed or recognized based on their fair market values. Management determined that the fair value of the net assets acquired was in excess of the purchase price, resulting in negative goodwill. In accordance with Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations," the negative goodwill was allocated as a pro rata reduction to the amounts that would have otherwise been assigned to the acquired noncurrent assets, based on their relative fair values.

		Allocate Purchase Pr ----- (In million)
Acquired assets:		
Accounts receivable.....	\$	222
Inventory.....		500
Other current assets.....		22
Property, plant & equipment.....		480
Intangible assets.....		42
Other noncurrent assets.....		3
		-----
Total assets.....		1,269
		-----
Acquired liabilities:		
Accounts payable.....		157
Payroll and benefits payable.....		57
Other current liabilities.....		30
Employee benefits.....		150
Other noncurrent liabilities.....		36
		-----
Total liabilities.....		430
		-----
Purchase price-cash.....	\$	839
		=====



Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

(Unaudited)

3. (Continued)

Refinements to the allocated purchase price are expected to be made as additional information becomes available, primarily relating to environmental contingencies. These contingencies were identified as of the closing of the transaction and include matters that are currently being negotiated with government agencies, and matters for which technical studies are being completed. Relevant information that is required to finalize the determination of the fair value of environmental liabilities for opening balance sheet purposes is expected to be received by May 2004.

The \$42 million of intangible assets is primarily comprised of proprietary software with a weighted average useful life of approximately 6 years. U. S. Steel recognized \$2 million and \$3 million, respectively, of amortization expense in the third quarter and nine months of 2003 related to these intangible assets.

The following unaudited pro forma data for U. S. Steel includes the results of operations of National as if it had been acquired at the beginning of the periods presented, including the effects of the new labor agreement as it pertains to the former National facilities and the financings incurred to fund the acquisition. (See Notes 17 and 21.) The unaudited pro forma data is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations.

(In millions, except per share data)	Pro Forma Nine Months Ended September 30 2003	2004
Revenues and other income.....	\$ 7,783	\$ 7,783
Income (loss) before extraordinary loss and cumulative effect cumulative effect of change in accounting principle.....	(378)	(378)
Per share - basic.....	(3.79)	(3.79)
- diluted.....	(3.79)	(3.79)
Net income (loss), applicable to common stock.....	(450)	(450)
Per share - basic.....	(4.37)	(4.37)
- diluted.....	(4.37)	(4.37)

(Unaudited)

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

4. On September 12, 2003, USSB, a wholly owned Serbian subsidiary of U. S. Steel, acquired Sartid a.d. (In Bankruptcy), an integrated steel company majority-owned by the Government of the Union of Serbia and Montenegro, and certain of its subsidiaries (collectively "Sartid") out of bankruptcy. Sartid, headquartered in the Republic of Serbia, primarily manufactures hot-rolled, cold-rolled, and tin-coated flat-rolled steel products, and complements the operations of USSK. The completion of this purchase resulted in the termination of a toll conversion agreement, a facility management agreement and a commercial and technical support agreement with Sartid.

The aggregate purchase price was \$33 million consisting of \$23 million in cash, transaction costs of \$6 million and the recognition of \$4 million in liabilities. In October 2003, \$21 million of the cash portion of the purchase price was disbursed and the remainder is expected to be disbursed in the fourth quarter of 2003. Upon consummation of the purchase of two small remaining subsidiaries of Sartid, a.d. (In Bankruptcy), whose operations are currently being conducted by USSB pursuant to an interim agreement, the transaction requires the following commitments by USSB; (i) spending during the first five years for working capital, the repair, rehabilitation, improvement, modification and upgrade of facilities and community support and economic development of up to \$157 million, subject to certain conditions; (ii) a stable employment policy for three years assuring employment of the approximately 9,000 employees, excluding natural attrition and terminations for cause; and (iii) an agreement not to sell, transfer or assign a controlling interest in the former Sartid assets to any third party without government consent for a period of five years. USSB did not assume or acquire any pre-acquisition liabilities including environmental, tax, social insurance liabilities, product liabilities and employee claims, other than \$4 million in pension and other employee related liabilities.

The acquisition was accounted for by the purchase method of accounting under SFAS No. 141 and, accordingly, the statement of operations includes the results of USSB beginning September 12, 2003. Prior to the acquisition, the operating results of activities under facility management and support agreements with Sartid were included in the results of USSK.

10

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

4. (Continued)

The following is a summary of the allocation of the purchase price to the assets acquired and liabilities assumed or recognized based on their fair market values. Based on appraisals, the fair value of the net assets acquired was in excess of the purchase price, resulting in negative goodwill. In accordance with SFAS No. 141, the negative goodwill was allocated as a pro rata reduction to the amounts that would have otherwise been assigned to the acquired noncurrent assets based on their relative fair values.

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

	All
	Purcha
	-----
	(In mi
Acquired assets:	
Accounts receivable.....	\$
Inventory.....	
Property, plant & equipment.....	
Total assets.....	-----
Acquired liabilities:	
Employee benefits.....	
Total liabilities.....	-----
Purchase price-cash.....	\$
	=====

From 1992 to 1995 and again from 1999 to October 2000 political and economic sanctions were enforced against Serbia by the United Nations. As a result of operating under the sanctions and government control, these facilities have been operating at levels well below capacity and are in disrepair. The limited financial data available for Sartid is not reliable nor is it believed that reliable historical financial statements could be prepared from the data that exists. In addition, any historical information provided would not reflect a market-based operation. Therefore, U. S. Steel management believes that historical financial information for Sartid is irrelevant to investors and consequently, no historical information for Sartid is presented nor will it be provided in future filings. In addition, pro forma financial data is not presented for the current or prior years because there is no reliable historical information on which to base pro forma amounts.

5. On June 30, 2003, U. S. Steel completed the sale of the coal mines and related assets of U. S. Steel Mining Company, LLC (Mining Sale) to PinnOak Resources, LLC (PinnOak), which is not affiliated with U. S. Steel. PinnOak acquired the Pinnacle No. 50 mine complex located near Pineville, West Virginia and the Oak Grove mine complex located near Birmingham, Alabama. In conjunction with the sale, U. S. Steel and PinnOak entered into a long-term coal supply agreement, which runs through December 31, 2006.

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

5. (Continued)

The gross proceeds from the sale were \$56 million, of which \$50 million was received at closing and \$6 million, relating to an adjustment to the purchase price based on inventory levels at June 30, 2003, is due to be received in the fourth quarter of 2003. U. S. Steel recognized a pretax

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

gain of \$13 million on the sale in the second quarter of 2003. In addition, EITF 92-13, "Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992" requires that enterprises that no longer have operations in the coal industry must account for their entire obligation related to the multiemployer health care benefit plans created by the Act as a loss in accordance with SFAS No. 5, "Accounting for Contingencies." Accordingly, U. S. Steel recognized the present value of these obligations in the amount of \$85 million, resulting in the recognition of an extraordinary loss of \$52 million, net of tax of \$33 million in the second quarter of 2003. See further information in Note 23.

6. U. S. Steel has various stock-based employee compensation plans. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in net income for stock options or stock appreciation rights (SARs) at the date of grant, as all options and SARs granted had an exercise price equal to the market value of the underlying common stock. When the stock price exceeds the grant price, SARs are adjusted for changes in the market value and compensation expense is recorded. The following tables illustrate the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

(In millions, except per share data)

Net income (loss).....	.....
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects.....	.....
Deduct: Total stock-based employee compensation expense determined under fair value methods for all awards, net of related tax effects.....	.....
Pro forma net income (loss).....	.....
Basic and diluted net income (loss) per share:	
- As reported.....	.....
- Pro forma.....	.....

UNITED STATES STEEL CORPORATION  
 SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. (Continued)

The above pro forma amounts were based on a Black-Scholes option-pricing model, which included the following information and assumptions:

-----  
Weighted average grant date exercise price per share.....  
Expected annual dividends per share.....  
Expected life in years.....  
Expected volatility.....  
Risk-free interest rate.....

Weighted-average grant date fair value of options granted  
during the period, as calculated from above.....

(In millions, except per share data)  
-----

Net income (loss).....  
Add: Stock-based employee compensation expense included  
in reported net loss, net of related tax effects.....  
Deduct: Total stock-based employee compensation expense  
determined under fair value methods for all awards, net  
of related tax effects.....

Pro forma net income (loss).....

Basic and diluted net income (loss) per share:  
- As reported.....  
- Pro forma.....

The above pro forma amounts were based on a Black-Scholes option-pricing  
model, which included the following information and assumptions:

-----  
Weighted average grant date exercise price per share.....  
Expected annual dividends per share.....  
Expected life in years.....  
Expected volatility.....  
Risk-free interest rate.....

Weighted-average grant date fair value of options granted  
during the period, as calculated from above.....

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

7. In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The Interpretation elaborates on the disclosure to be made by a guarantor about obligations under certain guarantees that it has issued. It also clarifies that at the inception of a guarantee, the company must recognize liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements were adopted for the 2002 annual financial statements. U. S. Steel is applying the remaining provisions of the Interpretation prospectively as required.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," was issued in January 2003 and addresses consolidation by business enterprises of variable interest entities that do not have sufficient equity investment to permit the entity to finance its activities without additional subordinated financial support from other parties or whose equity investors lack the characteristics of a controlling financial interest. The FASB delayed the application of this Interpretation until December 31, 2003. At this time U. S. Steel has not completed its assessment of the effects of the application of this Interpretation on either its financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Accounting for Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The amendments set forth in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except for certain outlined exceptions. This Statement was adopted with no initial impact.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, could be classified as equity or "mezzanine" equity, by now requiring these instruments be classified as liabilities (or assets in some circumstances) in the balance sheet. Further, SFAS No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. The guidance in the Statement is generally effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. This Statement was adopted with no initial impact.

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

(Unaudited)

8. In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 established a new accounting model for the recognition and measurement of retirement obligations associated with tangible long-lived assets. SFAS No. 143 requires that an asset retirement obligation be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. SFAS No. 143 requires pro forma disclosure of the amount of the liability for obligations as if the statement had been applied during all periods affected, using current information, current assumptions and current interest rates. In addition, the effect of adopting a new accounting principle on net income and on the related per share amounts is required to be shown on the face of the statement of operations for all periods presented under Accounting Principles Board Opinion No. 20, "Accounting Changes."

On January 1, 2003, the date of adoption, U. S. Steel recorded asset retirement obligations (AROs) of \$14 million (in addition to \$15 million already accrued), compared to the associated long-lived asset, net of accumulated depreciation, of \$7 million that was recorded, resulting in a cumulative effect of adopting this Statement of \$5 million, net of tax of \$2 million. The obligations recorded on January 1, 2003, and the amounts acquired from National primarily relate to mine and landfill closure and post-closure costs.

The following table reflects changes in the carrying values of AROs for the nine months ended September 30, 2003, and the pro forma impacts for the year ended December 31, 2002, as if SFAS No. 143 had been adopted on January 1, 2002:

(In millions)	Nine Months Ended Sept. 30, 2003
Balance at beginning of period.....	\$ 29
Liabilities acquired with National's assets.....	2
Accretion expense.....	2
Liabilities removed with Mining Sale.....	(14)
	-----
Balance at end of period.....	\$ 19
	=====

Certain asset retirement obligations related to disposal costs of fixed assets at our steel facilities have not been recorded because they have an indeterminate settlement date. These asset retirement obligations will be initially recognized in the period in which sufficient information exists to estimate fair value.

9. U. S. Steel has five reportable segments: Flat-rolled, Tubular, U. S. Steel Europe (USSE), Straightline Source (Straightline) and USS Real Estate (Real Estate). Effective with the acquisition of Sartid, the U. S. Steel Kosice (USSK) segment was renamed U. S. Steel Europe (USSE) and includes the operating results of USSB.

Effective with the third quarter of 2003, the composition of the Flat-rolled segment was changed to include the results of the coke

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

operations that were previously reported in Other Businesses. This change reflects the recent management consolidations. Comparative results for 2002 have been conformed to the current year presentation.

15

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

9. (Continued)

The Flat-rolled segment includes the operating results of U. S. Steel's domestic integrated steel mills and equity investees involved in the production of sheet, plate and tin mill products, as well as all domestic coke production facilities. These operations are principally located in the United States and primarily serve customers in the transportation (including automotive), appliance, service center, conversion, container and construction markets. Effective May 20, 2003, the Flat-rolled segment includes the operating results of Granite City, Great Lakes, the Midwest finishing facility, ProCoil and U. S. Steel's equity interest in Double G Coatings, which were acquired from National.

The Tubular segment includes the operating results of U. S. Steel's domestic tubular production facilities and prior to May 2003, included U. S. Steel's equity interest in Delta Tubular Processing (Delta). These operations produce and sell both seamless and electric resistance weld tubular products and primarily serve customers in the oil, gas and petrochemical markets. In May 2003, U. S. Steel sold its interest in Delta.

The USSE segment includes the operating results of USSK, U. S. Steel's integrated steel mill in the Slovak Republic; and, effective September 12, 2003, the former Sartid facilities in Serbia, now operated as USSB. Prior to September 12, 2003, this segment included the operating results of activities under facility management and support agreements with Sartid. These agreements were terminated in conjunction with the acquisition of these assets. USSE operations produce and sell sheet, plate, tin, tubular, precision tube and specialty steel products, as well as coke. USSE primarily serves customers in the central and western European construction, conversion, appliance, transportation, service center, container, and oil, gas and petrochemical markets. In June 2003, USSK sold its equity interest in Rannila Kosice, s.r.o.

The Straightline segment includes the operating results of U. S. Steel's technology-enabled distribution business that serves steel customers primarily in the eastern and central United States. Straightline competes in the steel service center marketplace using a nontraditional business process to sell, process and deliver flat-rolled steel products in small to medium sized order quantities primarily to job shops, contract manufacturers and original equipment manufacturers across an array of industries.

The Real Estate segment includes the operating results of U. S. Steel's domestic mineral interests that are not assigned to other operating units; timber properties; and residential, commercial and industrial real estate that is managed or developed for sale or lease. In April of 2003, U. S. Steel sold certain coal seam gas interests in Alabama. Prior to the sale, income generated from these interests was reported in the



## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

Real Estate segment.

All other U. S. Steel businesses not included in reportable segments are reflected in Other Businesses. These businesses are involved in the production and sale of iron-bearing taconite pellets; transportation services; and engineering and consulting services. Prior to the Mining Sale on June 30, 2003, Other Businesses were involved in the mining, processing and sale of coal. Effective May 20, 2003, Other Businesses include the operating results of the Keewatin, Minnesota taconite pellet operations and the Delray Connecting Railroad, which were acquired from National.

16

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

9. (Continued)

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, the income tax provision (benefit), or items not allocated to segments. 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. Intersegment sales and transfers for some operations are accounted for at cost, while others are accounted for at market-based prices, and are eliminated at the corporate consolidation level. All 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 third quarter of 2003 and 2002 are:

(In millions)	Flat- rolled	Tubular	USSE	Straight- line
-----				
Third Quarter 2003				
-----				
Revenues and other				
income:				
Customer.....	\$ 1,820	\$ 149	\$ 440	\$ 36
Intersegment.....	55	-	4	-
Equity income				
(loss) (a).....	1	-	-	-
Other.....	(1)	-	1	-
	-----	-----	-----	-----

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

Total.....	\$ 1,875	\$ 149	\$ 445	\$ 36
	=====	=====	=====	=====
Income (loss)				
from operations.....	\$ (50)	\$ (10)	\$ 35	\$ (15)
	=====	=====	=====	=====
Third Quarter 2002				
-----				
Revenues and other				
income:				
Customer.....	\$ 1,261	\$ 148	\$ 322	\$ 26
Intersegment.....	60	-	2	-
Equity income				
(loss) (a).....	4	-	-	-
Other.....	-	-	-	-
	-----	-----	-----	-----
Total.....	\$ 1,325	\$ 148	\$ 324	\$ 26
	=====	=====	=====	=====
Income (loss)				
from operations.....	\$ 57	\$ 3	\$ 40	\$ (11)
	=====	=====	=====	=====

(a) Represents equity in earnings (losses) of unconsolidated investees.

17

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

9. (Continued)

(In millions)	Total Reportable Segments	Other Businesses
-----		
Third Quarter 2003		
-----		
Revenues and other income:		
Customer.....	\$ 2,464	\$ 42
Intersegment.....	62	189
Equity income (loss) (a).....	1	(3)
Other.....	3	1
	-----	-----
Total.....	\$ 2,530	\$ 229
	=====	=====
Income (loss) from operations.....	\$ (28)	\$ (2)
	=====	=====
Third Quarter 2002		
-----		
Revenues and other income:		

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

Customer.....	\$ 1,779	\$ 126
Intersegment.....	64	166
Equity income (loss) (a).....	4	(4)
Other.....	2	2
	-----	-----
Total.....	\$ 1,849	\$ 290
	=====	=====
Income (loss) from operations.....	\$ 105	\$ 30
	=====	=====

(a) Represents equity in earnings (losses) of unconsolidated investees.

The following is a schedule of reconciling items for the third quarter of 2003 and 2002:

(In millions)	Revenues And Other Income	
	2003	2002
Elimination of intersegment revenues.....	\$ (251)	\$ (230)
	-----	-----
Items not allocated to segments:		
Workforce reduction charge.....	\$ -	-
Asset impairments.....	-	-
Federal excise tax refund.....	-	3
Insurance recoveries related to USS-POSCO fire.....	-	2
	-----	-----
	-	5
	-----	-----
Total reconciling items.....	\$ (251)	\$ (225)
	=====	=====

\* Elimination of intersegment revenues is offset by the elimination of intersegment cost of revenues within income (loss) from operations at the corporate consolidation level.

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. (Continued)

The results of segment operations for the nine months of 2003 and 2002 are:

(In millions)	Flat- Rolled	Tubular	USSE	Straight line
---------------	-----------------	---------	------	------------------

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

-----  
 Nine Months 2003  
 -----

Revenues and other  
 income:

Customer.....	\$ 4,539	\$ 425	\$ 1,333	\$ 96
Intersegment.....	157	-	11	-
Equity income (loss) (a).....	11	-	1	-
Other.....	7	5	3	-
	-----	-----	-----	-----
Total.....	\$ 4,714	\$ 430	\$ 1,348	\$ 96
	=====	=====	=====	=====
Income (loss) from operations.....	\$ (144)	\$ (20)	\$ 166	\$ (49)
	=====	=====	=====	=====

-----  
 Nine Months 2002  
 -----

Revenues and other  
 income:

Customer.....	\$ 3,434	\$ 415	\$ 823	\$ 51
Intersegment.....	147	-	2	-
Equity income (loss) (a).....	(5)	-	1	-
Other.....	(1)	-	3	-
	-----	-----	-----	-----
Total.....	\$ 3,575	\$ 415	\$ 829	\$ 51
	=====	=====	=====	=====
Income (loss) from operations.....	\$ (57)	\$ 10	\$ 65	\$ (28)
	=====	=====	=====	=====

(a) Represents equity in earnings (losses) of unconsolidated investees.

19

UNITED STATES STEEL CORPORATION  
 SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
 (Unaudited)

9. (Continued)

(In millions)	Total Reportable Segments	Other Businesses
-----		
Nine Months 2003		
-----		
Revenues and other income:		
Customer.....	\$ 6,463	\$ 252

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

Intersegment.....	176	453
Equity income (loss) (a).....	12	(11)
Other.....	22	3
	-----	-----
Total.....	\$ 6,673	\$ 697
	=====	=====
Income (loss) from operations.....	\$ (5)	\$ (38)
	=====	=====

Nine Months 2002

Revenues and other income:		
Customer.....	\$ 4,776	\$ 321
Intersegment.....	155	434
Equity income (loss) (a).....	(4)	(5)
Other.....	8	3
	-----	-----
Total.....	\$ 4,935	\$ 753
	=====	=====
Income (loss) from operations.....	\$ 27	\$ 59
	=====	=====

(a) Represents equity in earnings (losses) of unconsolidated investees.

The following is a schedule of reconciling items for the nine months of 2003 and 2002:

(In millions)	Revenues And Other Income	
	2003	2002
Elimination of intersegment revenues.....	\$ (629)	\$ (589)
	-----	-----
Items not allocated to segments:		
Workforce reduction charges.....	\$ -	-
Asset impairments .....	(11)	-
Income from sale of coal seam gas interests.....	34	-
Gain on sale of coal mining assets.....	13	-
Litigation items.....	-	-
Federal excise tax refund.....	-	36
Insurance recoveries related to USS-POSCO fire.....	-	20
Costs related to Fairless shutdown.....	-	-
	-----	-----
	36	56
	-----	-----
Total reconciling items.....	\$ (593)	\$ (533)
	=====	=====

\* Elimination of intersegment revenues is offset by the elimination of intersegment cost of revenues within income (loss) from operations at the corporate consolidation level.

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

10. In the nine months of 2003, U. S. Steel sold certain coal seam gas interests in Alabama for net cash proceeds of \$34 million, which is reflected in other income.

In the second and third quarters of 2002, U. S. Steel recognized pretax gains of \$33 million and \$3 million, respectively, associated with the recovery of black lung excise taxes that were paid on coal export sales during the period 1993 through 1999. These gains are included in other income in the statement of operations and resulted from a 1998 federal district court decision that found such taxes to be unconstitutional. Of the \$36 million recognized, \$11 million represents the interest component of the gain.

11. In the third quarter of 2003, U. S. Steel recorded curtailment expenses of \$310 million for pensions and \$64 million for other postretirement benefits related to employee reductions under the TAP for union employees (excluding former National employees retiring under the TAP), other retirements, layoffs and pending asset dispositions. Termination benefit charges of \$34 million were recorded primarily for enhanced pension benefits provided to U. S. Steel employees retiring under the TAP. Of the above total charges, \$336 million was recorded in cost of revenues and \$72 million was recorded in selling, general and administrative expenses. Further charges of \$105 million for early retirement cash incentives related to the TAP, excluding amounts associated with former National employees, were recorded in cost of revenues. Selling, general and administrative expenses for the nine months of 2003 and nine months of 2002 also included pension settlement losses of \$97 million and \$10 million, respectively, related to retirements of salaried personnel. Selling, general and administrative expenses in the third quarter of 2003 also included \$8 million for an accrual for salaried benefits under the layoff benefit plan.
12. Net interest and other financial costs include amounts related to the remeasurement of USSK's and USSB's net monetary assets into the U.S. dollar, which is their functional currency. During the third quarter and nine months of 2003, net gains of \$8 million and \$5 million, respectively, were recorded as compared with net gains of \$1 million and \$14 million, respectively, in the third quarter and nine months of 2002. Additionally, net interest and other financial costs in the third quarter and nine months of 2003 included a favorable adjustment of \$13 million related to interest accrued for prior years' income taxes.
13. U. S. Steel records depreciation on a modified straight-line method for domestic steel-producing assets based upon production levels. Applying modification factors decreased expenses by \$4 million and \$1 million for the third quarter of 2003 and 2002, respectively, and \$15 million and \$4 million for the nine months of 2003 and 2002, respectively.

# Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

## SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

14. Income from investees for the nine months of 2003 included an \$11 million impairment of a cost method investment. Income from investees for the nine months of 2002 includes a pretax gain of \$20 million for U. S. Steel's share of insurance recoveries related to the May 31, 2001 fire at the USS-POSCO joint venture.

15. Comprehensive Income

(In millions)	Third Quarter Ended Sept. 30	
	2003	2002
Net income (loss).....	\$ (354)	\$ 106
Other comprehensive income (loss):		
Changes in (net of tax):		
Minimum pension liability .....	(167)	-
Foreign currency translation adjustments.....	-	-
State tax valuation allowance.....	-	-
	----	----
Comprehensive income (loss).....	\$ (521)	\$ 106
	====	====

The change in the minimum pension liability recorded in the third quarter 2003 reflects \$(169) million for the union pension plan and \$2 million for the non-union excess-supplemental pension plan. These plans were remeasured in the third quarter 2003. See further information in Note 11.

16. The income tax benefit in the nine months of 2003 reflected an estimated annual effective tax rate of 49%. The first nine months of 2003 included a \$14 million favorable effect relating to an adjustment of prior years' taxes, in addition to a \$4 million deferred tax benefit relating to the reversal of a state valuation allowance.

The tax benefit in the nine months of 2003 is based on an estimated annual effective rate, which requires management to make its best estimate of annual forecasted pretax income (loss) for the year. During the year, management regularly updates forecast estimates based on changes in various factors such as prices, shipments, product mix, plant operating performance and cost estimates, including pension and other postretirement benefits. To the extent that actual pretax results for domestic and foreign income in 2003 vary from forecast estimates applied at the end of the most recent interim period, the actual tax benefit recognized in 2003 could be materially different from the forecasted annual tax benefit as of the end of the third quarter.

The income tax benefit in the nine months of 2002 reflected an estimated annual effective tax benefit rate for 2002 of approximately 31% and included a \$4 million deferred tax charge related to a newly enacted state tax law.

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)-----  
(Unaudited)

## 16. (Continued)

As of September 30, 2003, U. S. Steel had net federal and state deferred tax assets of \$470 million and \$92 million, respectively, which are expected to increase during the fourth quarter. Although U. S. Steel has experienced domestic losses in the current and prior year, management believes that it is more likely than not that tax planning strategies generating future taxable income can be utilized to realize the deferred tax assets recorded at September 30, 2003. Tax planning strategies include the implementation of the previously announced plan to dispose of non-strategic assets, as well as the ability to elect alternative tax accounting methods to provide future taxable income to assure realization of the anticipated deferred tax assets. During the fourth quarter, U. S. Steel intends to merge two of its defined benefit pension plans. Depending on the discount rate in effect on the measurement date and the growth in plan assets during the fourth quarter, the additional minimum pension liability determination at year end may increase federal and state deferred tax assets substantially or may result in a net deferred tax liability if a significant reversal of federal and state deferred tax assets occurs. The amount of the realizable deferred tax assets at September 30, 2003, and those expected to be recognized in the fourth quarter of the year could be adversely affected to the extent that losses continue in the future, if future events affect the ability to implement tax planning strategies or if further charges result from an increase in the minimum pension liability. Management will reassess the need for a valuation allowance at December 31, 2003.

The Slovak Income Tax Act provides an income tax credit which is available to USSK if certain conditions are met. In order to claim the tax credit in any year, 60% of USSK's sales must be export sales and USSK must reinvest the tax credits claimed in qualifying capital expenditures during the five years following the year in which the tax credit is claimed. The provisions of the Slovak Income Tax Act permit USSK to claim a tax credit of 100% of USSK's tax liability for years 2000 through 2004 and 50% for the years 2005 through 2009. Management believes that USSK fulfilled all of the necessary conditions for claiming the tax credit for the years for which it was claimed and anticipates meeting such requirements in 2003. As a result of claiming these tax credits and management's intent to reinvest earnings in foreign operations, virtually no income tax provision is recorded for USSK income.

In October 2002, a tax credit limit was negotiated by the Slovak government as part of the Accession Treaty governing the Slovak Republic's entry into the European Union (EU). The Treaty limits to \$500 million the total tax credit to be granted to USSK during the period 2000 through 2009. The impact of the tax credit limit is expected to be minimal since Slovak tax laws have been modified and tax rates have been reduced since the acquisition of USSK. The Treaty also places limits upon USSK's flat-rolled production and export sales to the EU, allowing for modest growth each year through 2009. The limits upon export sales to the EU take effect upon the Slovak Republic's entry into the EU, which is expected to occur in May 2004. A question has recently arisen



## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

with respect to the effective date of the production limits. Slovak Republic representatives have stated their belief that the Treaty intended that these limits take effect upon entry into the EU, whereas the European Commission has taken the position that the flat-rolled production limitations apply as of 2002. Discussions between representatives of the Slovak Republic and the European Commission are ongoing. Although it is not possible to predict the outcome of those discussions, an agreement resolving this issue may be reached prior to the end of 2003. That agreement could result in a reduction in USSK's tax credit and/or the acceleration of the restrictions upon USSK's flat-rolled production and/or sales into the EU. At this time, it is not possible to predict the impact of such a settlement upon U. S. Steel's financial position, results of operations or cash flows.

23

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

17. In February 2003, U. S. Steel sold 5 million shares of 7% Series B Mandatory Convertible Preferred Shares (no par value, liquidation preference \$50 per share) (Series B Preferred) for net proceeds of \$242 million. The Series B Preferred have a dividend yield of 7%, a 20% conversion premium (for an equivalent conversion price of \$15.66 per common share) and will mandatorily convert into shares of U. S. Steel common stock on June 15, 2006. The net proceeds of the offering were used for general corporate purposes and to fund a portion of the cash purchase price for the acquisition of National's assets. The number of common shares that could be issued upon conversion of the 5 million shares of Series B Preferred ranges from approximately 16.0 million shares to 19.2 million shares, based upon the timing of the conversion and the average market price of U. S. Steel's common stock. Preferred stock dividends of \$11 million paid during 2003 reduced the paid-in capital of the Series B Preferred because of the retained deficit.
18. Revenues from related parties and receivables from related parties primarily reflect sales of steel products, raw materials and fees for providing various management and other support services to equity and certain other investees. Generally, transactions are conducted under long-term market-based contractual arrangements.

Receivables from related parties at September 30, 2003 and December 31, 2002, also included \$16 million and \$28 million, respectively, due from Marathon Oil Corporation (Marathon) for tax settlements in accordance with the tax sharing agreement.

Long-term receivables from related parties at September 30, 2003 and December 31, 2002, reflect amounts due from Marathon related to contractual reimbursements for the retirement of participants in the non-qualified employee benefit plans. These amounts will be paid by Marathon as participants retire.

Accounts payable to related parties reflect balances due to PRO-TEC Coating Company (PRO-TEC) under an agreement whereby U. S. Steel provides marketing, selling and customer service functions, including invoicing and receivables collection, for PRO-TEC. U. S. Steel, as PRO-TEC's exclusive sales agent, is responsible for credit risk associated with the receivables. Payables to PRO-TEC under the agreement

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

were \$62 million and \$42 million at September 30, 2003 and December 31, 2002, respectively.

Accounts payable to related parties at September 30, 2003 and December 31, 2002, also included amounts related to the purchase of outside processing services from equity investees. At December 31, 2002, accounts payable to related parties also included the net present value of the second and final \$37 million installment of contingent consideration payable to VSZ a.s. related to the acquisition of USSK, which was paid in July 2003.

24

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

19. Inventories are carried at the lower of cost or market. Cost of inventories is determined primarily under the last-in, first-out (LIFO) method.

	(In
	----- September 30 2003 -----
Raw materials.....	\$ 221
Semi-finished products.....	613
Finished products.....	499
Supplies and sundry items.....	61
	-----
Total.....	\$ 1,394 =====

Costs of revenues decreased by \$11 million and increased by \$2 million in the nine months of 2003 and 2002, respectively, as a result of liquidations of LIFO inventories.

20. Net income (loss) per common share was calculated by adjusting net income (loss) for dividend requirements of preferred stock and is based on the weighted average number of common shares outstanding during the quarter.

Diluted net income (loss) assumes the exercise of stock options and conversion of preferred stock, provided in each case, the effect is dilutive. For the third quarters ended September 30, 2003 and 2002, the potential common stock related to employee options to purchase 6,776,877 shares and 5,073,601 shares of common stock, respectively, and 15,964,000 shares applicable to the conversion of preferred stock at September 30, 2003, have been excluded from the computation of diluted net income (loss) because the effect was antidilutive. For the nine months ended September 30, 2003 and 2002, the potential common stock related to employee options to purchase 6,871,324 shares and 5,071,380 shares of common stock, respectively, and 13,624,952 shares applicable to the conversion of preferred stock at September 30, 2003, have been

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

excluded from the computation of diluted net income (loss) because their effect was antidilutive.

21. On May 20, 2003, U. S. Steel entered into a new revolving credit facility that provides for borrowings of up to \$600 million that replaced a similar \$400 million facility entered into on November 30, 2001. The new facility, which is secured by a lien on U. S. Steel's inventory and receivables (to the extent not sold under the Receivables Purchase Agreement) expires in May 2007 and contains a number of covenants that require lender consent to incur debt or make capital expenditures above certain limits; sell assets used in the production of steel or steel products or incur liens on assets; and limit dividends and other restricted payments if the amount available for borrowings drops below certain levels. The facility also contains a fixed charge coverage ratio, calculated as the ratio of operating cash flow to cash charges as defined in the agreement, which effectively reduces availability by \$100 million if not met. At September 30, 2003, \$530 million was available under this facility.

At September 30, 2003, USSK had no borrowings against its \$50 million credit facilities. In addition, USSK had \$3 million of customs guarantees outstanding, reducing availability under these facilities to \$47 million. These facilities expire in the fourth quarter of 2004.

25

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

21. (Continued)

At September 30, 2003, in the event of a change in control of U. S. Steel, debt obligations totaling \$1,335 million may be declared immediately due and payable. In such event, U. S. Steel may also be required to either repurchase the leased Fairfield slab caster for \$84 million or provide a letter of credit to secure the remaining obligation.

In May 2003, in connection with the National acquisition, U. S. Steel issued \$450 million of Senior Notes due May 15, 2010 (9 3/4% Senior Notes). These notes have an interest rate of 9 3/4% per annum payable semi-annually on May 15 and November 15, commencing November 15, 2003. The 9 3/4% Senior Notes were issued under U. S. Steel's shelf registration statement and were not listed on any national securities exchange. Proceeds from the sale of the 9 3/4% Senior Notes were used to finance a portion of the purchase price to acquire National's assets. In 2001, U. S. Steel issued \$535 million of 10 3/4% Senior Notes. As of September 30, 2003, the aggregate principal amount of 9 3/4% and 10 3/4% Senior Notes outstanding was \$450 million and \$535 million, respectively. As of December 31, 2002, the aggregate principal amount outstanding of the 10 3/4% Senior Notes was \$535 million.

In conjunction with issuing the 9 3/4% Senior Notes, U. S. Steel solicited the consent of the holders of the 10 3/4% Senior Notes to modify certain terms of the notes to conform to the terms of the 9 3/4% Senior Notes. Those conforming changes modified the definitions of Consolidated Net Income, EBITDA and Like-Kind Exchange, permitted

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

dividend payments on the 7.00% Series B Mandatory Convertible Preferred Shares and expanded permitted investments to include loans made for the purpose of facilitating like-kind exchange transactions. U. S. Steel received the consent from holders of more than 90% of the principal amount of the 10 3/4% Senior Notes and the amendments were effective May 20, 2003.

The 9 3/4% and 10 3/4% Senior Notes impose certain restrictions that limit U. S. Steel's ability to, among other things: incur debt; pay dividends or make other payments from its subsidiaries; issue and sell capital stock of its subsidiaries; engage in transactions with affiliates; create liens on assets to secure indebtedness; transfer or sell assets; and consolidate, merge or transfer all or substantially all of U. S. Steel's assets or the assets of its subsidiaries.

U. S. Steel was in compliance with all of its debt covenants at September 30, 2003.

22. On May 19, 2003, U. S. Steel entered into an amendment to the Receivables Purchase Agreement, which increased fundings under the facility to the lesser of eligible receivables or \$500 million. During the nine months ended September 30, 2003, U. S. Steel Receivables LLC (USSR) sold to conduits and subsequently repurchased \$190 million of revolving interest in accounts receivable under the Receivables Purchase Agreement. During the nine months ended September 30, 2002, USSR sold to conduits and subsequently repurchased \$320 million of revolving interest in accounts receivable. As of September 30, 2003, \$489 million was available to be sold under this facility.

USSR pays the conduits a discount based on the conduits' borrowing costs plus incremental fees. During the nine months ended September 30, 2003 and 2002, U. S. Steel incurred costs on the sale of its receivables of \$1 million and \$2 million, respectively.

26

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

22. (Continued)

While the facility expires in November 2006, the facility also terminates on the occurrence and failure to cure certain events, including, among others, certain defaults with respect to the Inventory Facility and other debt obligations, any failure of USSR to maintain certain ratios related to the collectibility of the receivables, and failure to extend the commitments of the commercial paper conduits' liquidity providers which currently terminate on November 26, 2003. U. S. Steel is negotiating a renewal of the 364-day commitments of the liquidity providers in accordance with the terms of the facility.

23. U. S. Steel is the subject of, or party to, a number of pending or threatened legal actions, contingencies and commitments involving a variety of matters, including laws and regulations relating to the environment. Certain of these matters are discussed below. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the consolidated financial statements. However, management believes that U. S. Steel will remain a viable and

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

competitive enterprise even though it is possible that these contingencies could be resolved unfavorably.

U. S. Steel accrues for estimated costs related to existing lawsuits, claims and proceedings when it is probable that it will incur these costs in the future.

ASBESTOS MATTERS - U. S. Steel is a defendant in a large number of cases in which approximately 14,000 claimants actively allege injury resulting from exposure to asbestos. Almost all these cases involve multiple plaintiffs and multiple defendants. These claims fall into three major groups: (1) claims made under certain federal and general maritime laws by employees of the Great Lakes Fleet or Intercoastal Fleet, former operations of U. S. Steel; (2) claims made by persons who performed work at U. S. Steel facilities (referred to as "premises claims"); and (3) claims made by industrial workers allegedly exposed to an electrical cable product formerly manufactured by U. S. Steel. While U. S. Steel has excess casualty insurance, these policies have multi-million dollar self insured retentions and, to date, U. S. Steel has not received any payments under these policies relating to asbestos claims. In most cases, this excess casualty insurance is the only insurance applicable to asbestos claims.

These cases allege a variety of respiratory and other diseases based on alleged exposure to asbestos contained in a U.S. Steel electric cable product or to asbestos on U. S. Steel's premises; approximately 200 plaintiffs allege they are suffering from mesothelioma. In many cases, the plaintiffs cannot demonstrate that they have suffered any compensable loss as a result of such exposure or that any injuries they have incurred did in fact result from such exposure. Virtually all asbestos cases seek monetary damages from multiple defendants. U. S. Steel is unable to provide meaningful disclosure about the total amount of such damages alleged in these cases for the following reasons: (1) many cases do not claim a specific demand for damages, or contain a demand that is stated only as being in excess of the minimum jurisdictional limit of the relevant court; (2) even where there are specific demands for damages, there is no meaningful way to determine what amount of the damages would or could be assessed against any particular defendant; (3) plaintiffs' lawyers often allege the same amount of damages irrespective of the specific harm that has been alleged, even though the ultimate outcome of any claim may depend upon the actual disease, if any, that the plaintiff is able to prove and the actual exposure, if any, to the U. S. Steel product or the duration of exposure, if any, on U. S. Steel's premises. U. S. Steel believes the amount of any damages alleged in the complaints initially filed in these cases is not relevant in assessing its potential liability.

27

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

23. (Continued)

Until March 2003, U. S. Steel was successful in all asbestos cases that it tried to final judgment. On March 28, 2003, a jury in Madison County, Illinois returned a verdict against U. S. Steel for \$50 million in compensatory damages and \$200 million in punitive damages. The

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

plaintiff, an Indiana resident, alleged he was exposed to asbestos while working as a U. S. Steel employee at Gary Works in Gary, Indiana from 1950 to 1981 and that he suffers from mesothelioma as a result. U. S. Steel believes the plaintiff's exclusive remedy was provided by the Indiana workers' compensation law and that this issue and other errors at trial would have enabled U. S. Steel to succeed on appeal. However, in order to avoid the delay and uncertainties of further litigation and having to post an appeal bond equal to the amount of the verdict and to allow U. S. Steel to actively pursue its acquisition activities and other strategic initiatives, U. S. Steel settled this case and the settlement was reflected in financial results for the first quarter of 2003.

It is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this and although our results of operations or cash flows for a given period could be adversely affected by asbestos-related lawsuits, claims and proceedings, the Company believes the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition.

PROPERTY TAXES - U. S. Steel is a party to several property tax disputes involving its Gary Works property in Indiana, including claims for refunds totaling approximately \$65 million pertaining to tax years 1994-96 and 1999, and assessments totaling approximately \$133 million in excess of amounts paid for the 2000, 2001 and 2002 tax years. In addition, interest may be imposed upon any final assessment. The disputes involve property values and tax rates and are in various stages of administrative appeal. U. S. Steel is vigorously defending against the assessments and pursuing its claims for refunds.

ENVIRONMENTAL MATTERS - U. S. Steel is subject to federal, state, local and foreign laws and regulations relating to the environment. These laws generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation of hazardous waste disposal sites. Penalties may be imposed for noncompliance. Accrued liabilities for remediation totaled \$125 million and \$135 million at September 30, 2003 and December 31, 2002, respectively. Remediation liabilities at September 30, 2003, included liabilities recorded for asset retirement obligations under SFAS No. 143. It is not presently possible to estimate the ultimate amount of all remediation costs that might be incurred or the penalties that may be imposed.

28

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

23. (Continued)

For a number of years, U. S. Steel has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In the nine months of 2003 and for the years 2002 and 2001, such capital expenditures totaled \$15 million, \$14 million and \$15 million, respectively. U. S. Steel anticipates making additional such expenditures in the future; however, the exact amounts

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

and timing of such expenditures are uncertain because of the continuing evolution of specific regulatory requirements.

Throughout its history, U. S. Steel has sold numerous properties and businesses and has provided various indemnifications with respect to many of the assets that were sold. These indemnifications have been associated with the condition of the property, the approved use, certain representations and warranties, matters of title and environmental matters. While the vast majority of indemnifications have not covered environmental issues, there have been a few transactions in which U. S. Steel indemnified the buyer for non-compliance with past, current and future environmental laws related to existing conditions; however, most recent indemnifications are of a limited nature only applying to non-compliance with past and/or current laws. Some indemnifications only run for a specified period of time after the transactions close and others run indefinitely. The amount of potential liability associated with these transactions is not estimable due to the nature and extent of the unknown conditions related to the properties sold. Aside from approximately \$15 million of liabilities already recorded as a result of these indemnifications due to specific environmental remediation cases (included in the \$125 million of accrued liabilities for remediation discussed above), there are no other known liabilities related to these indemnifications.

**GUARANTEES** - Guarantees of the liabilities of unconsolidated entities of U. S. Steel totaled \$30 million at September 30, 2003, including \$7 million related to an equity interest acquired as part of the National asset purchase, and \$27 million at December 31, 2002. If any defaults of guaranteed liabilities occur, U. S. Steel has access to its interest in the assets of the investees to reduce potential losses resulting from these guarantees. As of September 30, 2003, the largest guarantee for a single such entity was \$14 million, which represents the maximum exposure to loss under a guarantee of debt service payments of an equity investee. No liability has been recorded for these guarantees.

**CONTINGENCIES RELATED TO SEPARATION FROM MARATHON** - U. S. Steel was contingently liable for debt and other obligations of Marathon in the amount of approximately \$68 million at September 30, 2003, compared to \$168 million at December 31, 2002. In the event of the bankruptcy of Marathon, these obligations for which U. S. Steel is contingently liable may be declared immediately due and payable. If such event occurs, U. S. Steel may not be able to satisfy such obligations. No liability has been recorded for these contingencies because management believes the likelihood of occurrence is remote.

29

UNITED STATES STEEL CORPORATION  
SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

-----  
(Unaudited)

23. (Continued)

If the Separation is determined to be a taxable distribution of the stock of U. S. Steel, but there is no breach of a representation or covenant by either U. S. Steel or Marathon, U. S. Steel would be liable for any resulting taxes (Separation No-Fault Taxes) incurred by Marathon. U. S. Steel's indemnity obligation for Separation No-Fault

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

Taxes survives until the expiration of the applicable statute of limitations. The maximum potential amount of U. S. Steel's indemnity obligation for Separation No-Fault Taxes at September 30, 2003 and December 31, 2002, was estimated to be approximately \$140 million. No liability has been recorded for this indemnity obligation because management believes that the likelihood of the Separation being determined to be a taxable distribution of the stock of U. S. Steel is remote.

OTHER CONTINGENCIES - U. S. Steel is contingently liable to its Chairman and Chief Executive Officer for a \$3 million retention bonus. The bonus is payable upon the earlier of his retirement from active employment or December 31, 2004, and is subject to certain performance measures.

Under certain operating lease agreements covering various equipment, U. S. Steel has the option to renew the lease or to purchase the equipment at the end of the lease term. If U. S. Steel does not exercise the purchase option by the end of the lease term, U. S. Steel guarantees a residual value of the equipment as determined at the lease inception date (totaling approximately \$51 million at both September 30, 2003 and December 31, 2002). No liability has been recorded for these guarantees as either management believes that the potential recovery of value from the equipment when sold is greater than the residual value guarantee, or the potential loss is not probable and/or estimable.

MINING SALE - U. S. Steel remains secondarily liable in the event that a withdrawal from a multiemployer pension plan is triggered within five years of the sale. A withdrawal is triggered when annual contributions to the plan are substantially less than contributions made in prior years. The maximum exposure for the fee that would be assessed upon a withdrawal is \$79 million. U. S. Steel recorded the fair value of this liability as of June 30, 2003. U. S. Steel has agreed to indemnify the purchaser for certain environmental matters, which are included in the environmental matters discussion above.

TRANSTAR REORGANIZATION - The 2001 reorganization of Transtar was intended to be tax-free for federal income tax purposes, with U. S. Steel and Transtar Holdings, L.P. (Holdings) agreeing through various representations and covenants to protect the reorganization's tax-free status. If the reorganization is determined to be taxable, but there is no breach of a representation or covenant by either U. S. Steel or Holdings, U. S. Steel is liable for 44% of any resulting Holdings taxes (Transtar No-Fault Taxes), and Holdings is responsible for 56% of any resulting U. S. Steel taxes. U. S. Steel's indemnity obligation for Transtar No-Fault Taxes survives until 30 days after the expiration of the applicable statute of limitations. The maximum potential amount of U. S. Steel's indemnity obligation for Transtar No-Fault Taxes at September 30, 2003 and December 31, 2002, was estimated to be approximately \$70 million. No liability has been recorded for this indemnity obligation because management believes that the likelihood of the reorganization being determined to be taxable resulting in Transtar No-Fault Taxes is remote.



## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

23. (Continued)

CLAIRTON 1314B PARTNERSHIP - U. S. Steel has a commitment to fund operating cash shortfalls of the partnership of up to \$150 million. Additionally, U. S. Steel, under certain circumstances, is required to indemnify the limited partners if the partnership product sales fail to qualify for the credit under Section 29 of the Internal Revenue Code. This indemnity will effectively survive until the expiration of the applicable statute of limitations. The maximum potential amount of this indemnity obligation at September 30, 2003 and December 31, 2002, including interest and tax gross-up, was approximately \$600 million. Furthermore, U. S. Steel under certain circumstances has indemnified the partnership for environmental obligations. See discussion of environmental matters above. The maximum potential amount of this indemnity obligation is not estimable. Management believes that the \$150 million deferred gain related to the partnership, which is recorded in deferred credits and other liabilities, is more than sufficient to cover any probable exposure under these commitments and indemnifications.

SELF-INSURANCE - U. S. Steel is self-insured for certain exposures including workers' compensation, auto liability and general liability, as well as property damage and business interruption, within specified deductible and retainage levels. Certain equipment that is leased by U. S. Steel is also self-insured within specified deductible and retainage levels. Liabilities are recorded for workers' compensation and personal injury obligations. Other costs resulting from self-insured losses are charged against income upon occurrence.

U. S. Steel uses surety bonds, trusts and letters of credit to provide whole or partial financial assurance for certain obligations such as workers' compensation. The total amount of active surety bonds, trusts and letters of credit being used for financial assurance purposes was approximately \$140 million as of September 30, 2003 and \$144 million as of December 31, 2002, which reflects U. S. Steel's maximum exposure under these financial guarantees, but not its total exposure for the underlying obligations. Most of the trust arrangements and letters of credit are collateralized by restricted cash that is recorded in other noncurrent assets.

COMMITMENTS - At September 30, 2003 and December 31, 2002, U. S. Steel's domestic contract commitments to acquire property, plant and equipment totaled \$34 million and \$24 million, respectively.

USSK has a commitment to the Slovak government for a capital improvements program of \$700 million, subject to certain conditions, over a period commencing with the acquisition date of November 24, 2000, and ending on December 31, 2010. The remaining commitments under this capital improvements program as of September 30, 2003 and December 31, 2002, were \$477 million and \$541 million, respectively.

U. S. Steel entered into a 15-year take-or-pay arrangement in 1993, which requires it to accept pulverized coal each month or pay a minimum monthly charge of approximately \$1 million. If U. S. Steel elects to terminate the contract early, a maximum termination payment of \$77 million as of September 30, 2003, which declines over the duration of the agreement, may be required.

Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

SELECTED NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

24. On September 30, 2003, U. S. Steel and International Steel Group Inc. (ISG) reached an agreement to exchange the assets of U. S. Steel's plate mill at Gary Works for the assets of ISG's No. 2 pickle line at its Indiana Harbor Works. As a result of this non-monetary exchange, which closed effective November 1, 2003, U. S. Steel recognized in the third quarter of 2003, a pretax impairment charge of \$46 million, which was recorded in depreciation, depletion and amortization.

32

UNITED STATES STEEL CORPORATION  
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES  
AND PREFERRED STOCK DIVIDENDS

(Unaudited)

Nine Months Ended September 30		Year Ended December 31			
2003	2002	2002	2001	2000	1999
(a)	1.34	1.04	(b)	1.05	2.10

- (a) Earnings did not cover combined fixed charges and preferred stock dividends by \$789 million.  
(b) Earnings did not cover combined fixed charges and preferred stock dividends by \$598 million.

UNITED STATES STEEL CORPORATION  
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Unaudited)

Nine Months Ended September 30		Year Ended December 31			
2003	2002	2002	2001	2000	1999
(a)	1.34	1.04	(b)	1.13	2.3



## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

dredging on the river is concluded, which is expected to occur in December 2003. Closure costs for the CAMU are estimated to be an additional \$4.9 million.

34

### Part II - Other Information (Continued):

-----

On March 11, 2003, Gary Works received a notice of violation from the EPA alleging construction of two desulfurization facilities without proper installation permitting. Negotiations began April 24, 2003, and the cost of settlement of this matter is currently indeterminable.

In December 1995, U. S. Steel reached an agreement in principle with the EPA and the U.S. Department of Justice (DOJ) with respect to alleged Resource Conservation and Recovery Act (RCRA) violations at Fairfield Works. A consent decree was signed by U. S. Steel, the EPA and the DOJ and filed with the United States District Court for the Northern District of Alabama (United States of America v. USX Corporation) on December 11, 1997, under which U. S. Steel will pay a civil penalty of \$1.0 million, implement two Supplemental Environmental Projects (SEPs) costing a total of \$1.75 million and implement a RCRA corrective action at the facility. One SEP was completed during 1998. The second SEP was completed in 2003. As of February 22, 2000, the Alabama Department of Environmental Management assumed primary responsibility for regulation and oversight of the RCRA corrective action program at Fairfield Works, with the approval of the EPA. The first Phase I RCRA Facility Investigation (RFI) work plan was approved for the site on September 16, 2002. Field sampling for the work plan commenced immediately after approval and will continue through the end of 2003. The cost to complete this study is estimated to be \$770,000.

On October 23, 1998, a final Administrative Order on Consent was issued by the EPA addressing Corrective Action for Solid Waste Management Units throughout Gary Works. This order requires U. S. Steel to perform an RFI and a Corrective Measure Study at Gary Works. The Current Conditions Report, U. S. Steel's first deliverable, was submitted to the EPA in January 1997 and was approved by the EPA in 1998. Phase I RFI work plans have been approved for the Coke Plant, the Process Sewers, and Background Soils at the site, along with the approval of one self-implementing interim stabilization measure and a corrective measure. Another eight Phase I RFI work plans have been submitted for EPA approval, thereby completing the Phase I requirement, along with two Phase II RFI work plans and one further self-implementing interim stabilization measure. The costs to complete these studies and corrective measures are estimated to be \$4.8 million. Until the studies are completed, it is impossible to assess what additional expenditures will be necessary.

On February 12, 1987, U. S. Steel and the PADER entered into a Consent Order to resolve an incident in January 1985 involving the alleged unauthorized discharge of benzene and other organic pollutants from Clairton Works in Clairton, Pa. That Consent Order required U. S. Steel to pay a penalty of \$50,000 and a monthly payment of \$2,500 for five years. In 1990, U. S. Steel and the PADER reached agreement to amend the Consent Order. Under the amended Order, U. S. Steel agreed to remediate the Peters Creek Lagoon (a former coke plant waste disposal site); to pay a penalty of \$300,000; and to pay a monthly penalty of up to \$1,500 each month until the former disposal site is closed. Remediation costs have amounted to \$11.0 million with another \$0.6 million presently estimated to complete the project.

35

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

Part II - Other Information (Continued):  
-----

In 1997, USS/Kobe, a joint venture between U. S. Steel and Kobe Steel, Ltd. (Kobe), was the subject of a multi-media audit by the EPA that included an air, water and hazardous waste compliance review. USS/Kobe and the EPA entered into a tolling agreement pending issuance of the final audit and commenced settlement negotiations in July 1999. In August 1999, the steelmaking and bar producing operations of USS/Kobe were combined with companies controlled by Blackstone Capital Partners II to form Republic. The tubular operations of USS/Kobe were transferred to a newly formed entity, Lorain Tubular Company, LLC (Lorain Tubular), which operated as a joint venture between U. S. Steel and Kobe until December 31, 1999, when U. S. Steel purchased all of Kobe's interest in Lorain Tubular. U. S. Steel is continuing negotiations with the EPA, and has made an offer of settlement that involves a cash penalty of \$100,025 and a supplemental environmental project to do PCB transformer replacement for a combined amount of \$774,025. Most of the matters raised by the EPA relate to Republic's facilities; however, air discharges from U. S. Steel's #3 seamless pipe mill have also been cited. U. S. Steel will be responsible for matters relating to its facilities. The final report and citations from the EPA have not been issued. Issues related to Republic have been resolved in its bankruptcy proceedings.

Prior to U. S. Steel's acquisition of the Granite City, Great Lakes and Midwest facilities, the DOJ had filed against National Steel Corporation proofs of claim asserting noncompliance allegations under various environmental statutes, including the Clean Air Act, RCRA, the Clean Water Act, the Emergency Planning and Community Right to Know Act, CERCLA and the Toxic Substances Control Act at these three facilities. The EPA had conducted inspections of the facilities and entered into negotiations with National Steel Corporation toward resolving these allegations with a consent decree. U. S. Steel is currently engaged in discussions with the DOJ, the EPA and the State of Illinois related to the conditions previously noted at these facilities. At Granite City Works, the EPA had determined that ditches and dewatering beds currently in operation were allegedly not in compliance with applicable waste oil management standards. Dredging of the ditches and dewatering beds is expected to cost \$1.3 million. U. S. Steel is currently discussing with the EPA, the DOJ and the State of Illinois appropriate measures to investigate and remediate the ditches and dewatering beds. Air emissions from the steelmaking shop at Great Lakes are also under discussion. It has not been determined what, if any, corrective action may be necessary to address those emissions. Other, less significant issues are also under discussion, including Ferrous Chloride Solution handling at Granite City and Great Lakes, Spill Prevention Control and Countermeasures Plans at both facilities, RCRA training at Great Lakes and other waste handling issues.

36

Part II - Other Information (Continued):  
-----

### Asbestos Litigation

U. S. Steel is a defendant in approximately 3,750 active cases in which, as of September 30, 2003, approximately 16,000 plaintiffs have filed claims alleging injury resulting from exposure to asbestos. Almost all of these cases involve multiple defendants (typically from fifty to more than one hundred defendants). Over 15,000, or more than 90%, of the plaintiffs in cases in which U. S. Steel is a defendant are in cases filed in Mississippi, Ohio and Texas, jurisdictions which permit filings with massive numbers of plaintiffs. Based upon our experience in such cases, the actual number of plaintiffs who

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

ultimately assert claims against U. S. Steel is likely to be a small fraction of the total number of plaintiffs.

These claims against U. S. Steel fall into three major groups: (1) claims made under certain federal and general maritime laws by employees of the Great Lakes Fleet or Intercoastal Fleet, former operations of U. S. Steel; (2) claims made by persons who allegedly were exposed to asbestos at U. S. Steel facilities (referred to as "premises claims"); and (3) claims made by industrial workers allegedly exposed to an electrical cable product formerly manufactured by U. S. Steel. While U. S. Steel has excess casualty insurance, these policies have multi-million dollar self-insured retentions. To date, U. S. Steel has not received any payments under these policies relating to asbestos claims. In most cases, this excess casualty insurance is the only insurance applicable to asbestos claims.

These asbestos cases allege a variety of respiratory and other diseases based on alleged exposure to asbestos. U. S. Steel is currently a defendant in cases in which a total of approximately 200 plaintiffs allege that they are suffering from mesothelioma. The potential for damages against defendants may be greater in cases in which the plaintiffs can prove mesothelioma. In many such cases in which claims have been asserted against U. S. Steel, the plaintiffs have been unable to establish any causal relationship to U. S. Steel or its products or premises. In addition, in many asbestos cases, the plaintiffs have been unable to demonstrate that they have suffered any identifiable injury or compensable loss at all; that any injuries that they have incurred did in fact result from alleged exposure to asbestos; or that such alleged exposure was in any way related to U. S. Steel or its products or premises.

In every asbestos case in which U. S. Steel is named as a party, the complaints are filed against numerous named defendants and generally do not contain allegations regarding specific monetary damages sought. To the extent that any specific amount of damages is sought the amount applies to claims against all named defendants and in no case is there any allegation of monetary damages against U. S. Steel. Approximately 89% of the cases against U. S. Steel state that the damages sought exceed the amount required to establish jurisdiction of the court in which the case was filed. (Jurisdictional amounts generally range from \$25,000 to \$75,000.) Approximately 4.0% do not specify any damages sought at all, approximately 6% allege damages of \$1.0 million or less, another 0.5% allege damages between \$2.0 million and \$10.0 million, and 0.5% allege damages over \$10 million. We do not consider the amount of damages alleged, if any, in a complaint to be relevant in assessing our potential exposure to asbestos liabilities. The ultimate outcome of any claim depends upon a myriad of legal and factual issues, including whether the plaintiff can prove actual disease, if any; actual exposure, if any, to U. S. Steel products; or the duration of exposure to asbestos, if any, on U. S. Steel's premises. We have noted over the years that the form of complaint including its allegations, if any, concerning damages often depends upon the form of complaint filed by particular law firms and attorneys. Often the same damage allegation will be in multiple complaints regardless of the number of plaintiffs, the number of defendants, or any specific diseases or conditions alleged.

37

Part II - Other Information (Continued):  
-----

U. S. Steel aggressively pursues grounds for the dismissal of U. S. Steel from pending cases and litigates cases to verdict where it believes litigation is appropriate. U. S. Steel also makes efforts to settle appropriate cases for reasonable, and frequently nominal, amounts. For example, in 2000, U.

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

S. Steel settled 22 claims for a total of approximately \$80,000, and had 4,157 claims dismissed or otherwise resolved and 3,860 new claims filed. At December 31, 2000, U. S. Steel had a total of approximately 30,700 active claims outstanding. In 2001, U. S. Steel settled 11,166 claims for a total of approximately \$190,000, and had about 4,102 claims dismissed or otherwise resolved and 1,679 new claims filed. At December 31, 2001, U. S. Steel had a total of approximately 17,100 active claims outstanding. In 2002, U. S. Steel settled 1,135 claims for a total of approximately \$700,000, and had a total of 2,662 claims dismissed or otherwise resolved and 842 new claims filed. At December 31, 2002, there were approximately 14,100 active claims outstanding, and at September 30, 2003, there were approximately 16,000 active claims outstanding.

On March 28, 2003, a jury in Madison County, Illinois returned a verdict against U. S. Steel for \$50 million in compensatory damages and \$200 million in punitive damages. U. S. Steel believes that the court erred as a matter of law by failing to find that the plaintiff's exclusive remedy was provided by the Indiana workers' compensation law. U. S. Steel believes that this issue and other errors at trial would have enabled U. S. Steel to succeed on appeal. However, in order to avoid the delay and uncertainties of further litigation and the posting of a large appeal bond in excess of the amount of the verdict, U. S. Steel settled this case for an amount which was substantially less than the compensatory damages award and which represented a small fraction of the total award. This settlement is reflected in the results for the quarter ended March 31, 2003 and for the nine months ended September 30, 2003.

Management views the verdict and resulting settlement in the Madison County case as aberrational, and believes that the likelihood of similar results in other cases is remote, although not impossible. U. S. Steel has not experienced any material adverse change in its ability to resolve pending claims as a result of the Madison County settlement.

The amount we have accrued for pending asbestos claims is not material to U. S. Steel's financial position. We do not accrue for unasserted asbestos claims because we believe it is not possible to determine whether any loss is probable with respect to such claims or even to estimate the amount or range of any possible losses. Among the reasons that we cannot reasonably estimate the number and nature of claims against us is that the vast majority of pending claims against us allege so-called "premises" liability based exposure on U. S. Steel's current or former premises. These claims are made by an indeterminable number of people such as truck drivers, railroad workers, salespersons, contractors and their employees, government inspectors, customers, visitors and even trespassers.

It is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although our results of operations and cash flows for a given period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition. Among the factors considered in reaching this conclusion are: (1) that U. S. Steel has been subject to a total of approximately 34,000 asbestos claims over the past 12 years that have been administratively dismissed or are inactive due to the failure of the plaintiffs to present any medical evidence supporting their claims; (2) that over the last several years, the total number of pending claims has declined; (3) that it has been many years since U. S. Steel employed maritime workers or manufactured electric cable; and (4) U. S. Steel's history of trial

## Edgar Filing: UNITED STATES STEEL CORP - Form 10-Q/A

Part II - Other Information (Continued):  
-----

outcomes, settlements and dismissals, including such matters since the Madison County jury verdict and settlement in March 2003.

The foregoing statements of belief are forward-looking statements. Predictions as to the outcome of pending litigation are subject to substantial uncertainties with respect to (among other things) factual and judicial determinations, and actual results could differ materially from those expressed in this forward-looking statement.

### Item 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) EXHIBITS

- 31.1 Certification of Chief Executive Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

UNITED STATES STEEL CORPORATION

By /s/ Larry G. Schultz  
-----

Larry G. Schultz  
Vice President & Controller

January 27, 2004