UNITED STATES STEEL CORP
Form 10-Q
April 27, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2010

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

(Exact name of registrant as specified in its charter)

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

600 Grant Street, Pittsburgh, PA	15219-2800
(Address of principal executive offices)	(Zip Code)

(412) 433-1121

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes Ö No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes Ö No__

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Ö	Accelerated filer __	Non-accelerated filer __ (Do not check if a smaller reporting company)	Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes__ No Ö

Common stock outstanding at April 23, 2010 143,383,893 shares

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(Dollars in millions, except per share amounts)	Three Months Ended March 31, 2010	2009
Net sales:		
Net sales	**$ 3,615**	$ 2,605
Net sales to related parties *(Note 18)*	**281**	145
Total	**3,896**	2,750
Operating expenses (income):		
Cost of sales (excludes items shown below)	**3,639**	3,007
Selling, general and administrative expenses	**148**	143
Depreciation, depletion and amortization *(Note 6)*	**165**	158
Loss from investees	**5**	21
Net gain on disposal of assets *(Notes 4 and 19)*	**(3)**	(97)
Other income, net	**(1)**	(4)
Total	**3,953**	3,228
Loss from operations	**(57)**	(478)
Interest expense	**43**	36
Interest income	**(3)**	(2)
Other financial costs *(Note 8)*	**68**	37
Net interest and other financial costs	**108**	71
Loss before income taxes	**(165)**	(549)
Income tax benefit *(Note 9)*	**(7)**	(110)
Net loss	**(158)**	(439)
Less: Net loss attributable to noncontrolling interests	**(1)**	-
Net loss attributable to United States Steel Corporation	**$ (157)**	$ (439)
Loss per common share *(Note 10)***:**		
Net loss per share attributable to United States Steel Corporation shareholders:		
- Basic	**$ (1.10)**	$ (3.78)
- Diluted	**$ (1.10)**	$ (3.78)

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

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UNITED STATES STEEL CORPORATION

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,386**	$ 1,218
Receivables, less allowance of $39 in both periods	**1,811**	1,423
Receivables from related parties *(Note 18)*	**151**	144
Inventories *(Note 11)*	**1,647**	1,679
Income tax receivable *(Note 9)*	**21**	214
Deferred income tax benefits *(Note 9)*	**297**	299
Other current assets	**87**	38
Total current assets	**5,400**	5,015
Property, plant and equipment	**15,662**	16,030
Less accumulated depreciation and depletion	**9,253**	9,210
Total property, plant and equipment, net	**6,409**	6,820
Investments and long-term receivables, less allowance of $22 in both periods	**658**	695
Intangibles net *(Note 6)*	**281**	281
Goodwill *(Note 6)*	**1,754**	1,725
Assets held for sale *(Note 5)*	**45**	33
Deferred income tax benefits *(Note 9)*	**482**	535
Other noncurrent assets	**298**	318
Total assets	**$ 15,327**	$ 15,422
Liabilities		
Current liabilities:		
Accounts payable	**$ 1,585**	$ 1,396
Accounts payable to related parties *(Note 18)*	**68**	61
Bank checks outstanding	**14**	23
Payroll and benefits payable	**711**	854
Accrued taxes *(Note 9)*	**133**	89
Accrued interest	**52**	32
Short-term debt and current maturities of long-term debt *(Note 13)*	**21**	19
Total current liabilities	**2,584**	2,474
Long-term debt, less unamortized discount *(Note 13)*	**3,651**	3,345
Employee benefits	**4,104**	4,143
Deferred credits and other noncurrent liabilities	**431**	481
Total liabilities	**10,770**	10,443
Contingencies and commitments *(Note 19)*		
Stockholders Equity *(Note 17):*		
Common stock (150,925,911 shares issued) *(Note 10)*	**151**	151
Treasury stock, at cost (7,549,453 and 7,575,724 shares)	**(606)**	(608)
Additional paid-in capital	**3,653**	3,652
Retained earnings	**4,044**	4,209

Accumulated other comprehensive loss		**(2,686)**		(2,728)
Total United States Steel Corporation stockholders equity		**4,556**		4,676
Noncontrolling interests *(Note 15)*		**1**		303
Total liabilities and stockholders equity	**$**	**15,327**	$	15,422

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

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Dollars in millions)	**Three Months Ended March 31, 2010**	**2009**
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net loss	**$ (158)**	$ (439)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization *(Note 6)*	**165**	158
Provision for doubtful accounts	**3**	(3)
Pensions and other postretirement benefits	**(150)**	1
Deferred income taxes	**15**	(165)
Net gain on disposal of assets *(Notes 4 and 19)*	**(3)**	(97)
Distributions received, net of equity investees income	**8**	28
Changes in:		
Current receivables	**(426)**	722
Inventories	**(11)**	350
Current accounts payable and accrued expenses	**269**	(344)
Income taxes receivable/payable *(Note 9)*	**218**	61
Bank checks outstanding	**(9)**	1
Foreign currency translation	**51**	61
All other, net	**(31)**	(25)
Net cash (used in) provided by operating activities	**(59)**	309
Investing activities:		
Capital expenditures	**(125)**	(118)
Capital expenditures variable interest entities *(Note 15)*	**-**	(45)
Disposal of assets	**65**	303
Restricted cash, net	**6**	(2)
Investments, net	**(10)**	(22)
Net cash (used in) provided by investing activities	**(64)**	116
Financing activities:		
Issuance of long-term debt, net of financing costs	**582**	-
Repayment of borrowings under revolving credit facilities	**(270)**	-
Repayment of long-term debt	**(4)**	(4)
Common stock issued	**1**	-
Distributions from noncontrolling interests	**-**	37
Dividends paid	**(7)**	(35)
Net cash provided by (used in) financing activities	**302**	(2)
Effect of exchange rate changes on cash	**(11)**	(16)
Net increase in cash and cash equivalents	**168**	407
Cash and cash equivalents at beginning of year	**1,218**	724

Cash and cash equivalents at end of period	**$ 1,386**	$ 1,131

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

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Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

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

The year-end consolidated balance sheet data was derived from audited statements but does not include all disclosures required for complete financial statements by accounting principles generally accepted in the United States. The other information in these financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Additional information is contained in the United States Steel Corporation Annual Report on Form 10-K for the year ended December 31, 2009.

2. New Accounting Standards

On January 1, 2010, U. S. Steel adopted updates to Accounting Standards Codification (ASC) Topic 810 related to improvements to financial reporting by enterprises involved with variable interest entities. The updates to ASC Topic 810 include a criterion that requires the primary beneficiary to have the power to direct the activities that most significantly impact the economic performance of the variable interest entity. Due to the addition of this criterion, the adoption resulted in the deconsolidation of Gateway Energy & Coke Company, LLC and Daniel Ross Bridge, LLC from our consolidated financial statements on a prospective basis. The primary impact from the adoption of the updates to ASC Topic 810 was the removal of approximately $300 million of net assets, comprised mainly of property, plant and equipment, from our consolidated balance sheet. These net assets were entirely offset by noncontrolling interest, which was also removed upon adoption. There was an immaterial impact to our consolidated statement of operations. See note 15 for further details of these entities.

On January 1, 2010, U. S. Steel adopted updates to ASC Topic 860 related to the accounting for transfers of financial assets. As a result of the adoption, any transfers of receivables pursuant to our Receivables Purchase Agreement (RPA) no longer qualify as a sale and are now accounted for as secured borrowing transactions. Accordingly, receivable transfers as well as the related borrowings for equal amounts are required to be reflected on the consolidated balance sheet and the proceeds and repurchases related to the securitization program will be included in cash flows from financing activities in the statement of cash flows. U. S. Steel did not have any transactions under the RPA during the first quarter of 2010 or 2009. See note 13 for further details of our accounts receivable facility.

3. Segment Information

U. S. Steel has three reportable segments: Flat-rolled Products (Flat-rolled), U. S. Steel Europe (USSE), and Tubular Products (Tubular). The results of several other operating segments that do not constitute reportable segments are combined and disclosed in the Other Businesses category.

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The chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being income from operations. Income from operations for reportable segments and Other Businesses does not include net interest and other financial costs, income taxes, benefit expenses for current retirees and certain other items that management believes are not indicative of future results. Information on segment assets is not disclosed, as the chief operating decision maker does not review it.

The accounting principles applied at the operating segment level in determining income from operations are generally the same as those applied at the consolidated financial statement level. The transfer value for steel rounds from Flat-rolled to Tubular is based on cost. All other intersegment sales and transfers are accounted for at market-based prices and are eliminated at the corporate consolidation level. Corporate-level selling, general and administrative expenses and costs related to certain former businesses are allocated to the reportable segments and Other Businesses based on measures of activity that management believes are reasonable.

The results of segment operations for the first quarter of 2010 and 2009 are:

(In millions) **First Quarter 2010**	Customer Sales	Intersegment Sales	Net Sales	Loss from investees	(Loss) Income from operations
Flat-rolled	**$ 2,455**	**$ 219**	**$ 2,674**	**$ (5)**	**$ (80)**
USSE	**964**	**25**	**989**	**-**	**12**
Tubular	**445**	**1**	**446**	**-**	**45**
Total reportable segments	**3,864**	**245**	**4,109**	**(5)**	**(23)**
Other Businesses	**32**	**(21)**	**11**	**-**	**10**
Reconciling Items	**-**	**(224)**	**(224)**	**-**	**(44)**
Total	**$ 3,896**	**$ -**	**$ 3,896**	**$ (5)**	**$ (57)**
First Quarter 2009					
Flat-rolled	$ 1,592	$ 53	$ 1,645	$ (21)	$ (422)
USSE	622	1	623	-	(159)
Tubular	515	3	518	-	127
Total reportable segments	2,729	57	2,786	(21)	(454)
Other Businesses	21	41	62	-	(3)
Reconciling Items	-	(98)	(98)	-	(21)
Total	$ 2,750	$ -	$ 2,750	$ (21)	$ (478)

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

(In millions)	Three Months Ended March 31, 2010	2009
Items not allocated to segments:		
Retiree benefit expenses	**$ (44)**	$ (32)
Other items not allocated to segments:		
Net gain on the sale of assets *(Note 4)*	**-**	97
Workforce reduction charges *(Note 7)*	**-**	(86)
Total other items not allocated to segments	**-**	11
Total reconciling items	**$ (44)**	$ (21)

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4. Acquisitions and Dispositions

Wabush Mines Joint Venture

On February 1, 2010, U. S. Steel Canada Inc. (USSC) completed the previously announced sale of its 44.6 percent interest in the Wabush Mines Joint Venture (Wabush) for approximately $60 million. Wabush owns and operates iron ore mining and pellet facilities in Newfoundland and Labrador and Quebec, Canada. U. S. Steel recognized an immaterial loss on the sale.

Z-Line Company

As a result of the minority owner s exercise of a put option, U. S. Steel acquired the minority owner s 40 percent ownership interest in Z-Line Company (Z-Line), a partnership, on December 23, 2009 for C$26 million (approximately $24 million). Z-line, which owned and operated a galvanizing/galvannealing line, has subsequently been dissolved and the facility is now operated as part of our Hamilton Works located in Ontario, Canada. The acquisition has been accounted for in accordance with ASC Topic 810, Consolidations.

Elgin, Joliet and Eastern Railway Company

On January 31, 2009, U. S. Steel completed the previously announced sale of the majority of the operating assets of Elgin, Joliet and Eastern Railway Company (EJ&E) to Canadian National Railway Company (CN) for approximately $300 million. U. S. Steel retained railroad assets, equipment, and employees that support the Gary Works. As a result of the transaction, U. S. Steel recognized a net gain of approximately $97 million, net of a $10 million pension curtailment charge (see Note 7), in the first quarter 2009.

5. Assets Held for Sale

As of March 31, 2010 and December 31, 2009, U. S. Steel had classified certain assets at Hamilton Works, consisting primarily of property, plant and equipment, as held for sale in accordance with ASC Topic 360 on impairment and disposal of long-lived assets.

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment for the three months ended March 31, 2010 are as follows:

	Flat-rolled Segment	Tubular Segment	Total
Balance at December 31, 2009	$ 876	$ 849	$ 1,725
Currency translation	**29**	**-**	**29**
Balance at March 31, 2010	**$ 905**	**$ 849**	**$ 1,754**

Goodwill represents the excess of the cost over the fair value of acquired identifiable tangible and intangible assets and liabilities assumed from businesses acquired. We have two reporting units that have a significant amount of goodwill. Our Flat-rolled reporting unit was allocated goodwill from the Stelco and Lone Star acquisitions in 2007. These amounts reflect the benefits we expect the Flat-rolled reporting unit to realize from expanding our flexibility in meeting our customers needs and running our Flat-rolled facilities at higher operating rates to source our semi-finished product needs. Our Texas Operations reporting unit, which is part of our Tubular operating segment, was allocated goodwill from the Lone Star acquisition, reflecting the benefits we expect the reporting unit to realize from the expansion of our tubular operations.

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Goodwill is tested for impairment at the reporting unit level annually in the third quarter and whenever events or circumstances indicate that the carrying value may not be recoverable. The evaluation of impairment involves comparing the estimated fair value of the associated reporting unit to its carrying value, including goodwill. U. S. Steel completed its annual goodwill impairment test during the third quarter of 2009 and determined that there was no goodwill impairment for either reporting unit. Goodwill impairment tests in prior years also indicated that goodwill was not impaired for either reporting unit. Accordingly, there are no accumulated impairment losses for goodwill.

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

		As of March 31, 2010			As of December 31, 2009		
(In millions)	**Useful Lives**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Amount**
Customer relationships	22-23 Years	**$ 219**	**$ 26**	**$ 193**	$ 216	$ 24	$ 192
Other	2-20 Years	**24**	**11**	**13**	24	10	14
Total amortizable intangible assets		**$ 243**	**$ 37**	**$ 206**	$ 240	$ 34	$ 206

The carrying amount of acquired water rights with indefinite lives as of March 31, 2010 and December 31, 2009 totaled $75 million. The water rights are tested for impairment annually in the third quarter. The 2009 test indicated that the fair value of the water rights exceeded the carrying value. Accordingly, no impairment loss was recognized.

Amortization expense was $3 million in both the three months ended March 31, 2010 and 2009. The estimated future amortization expense of identifiable intangible assets during the next five years is $8 million for the remaining portion of 2010 and $11 million each year from 2011 to 2014.

7. Pensions and Other Benefits

The following table reflects the components of net periodic benefit cost for the three months ended March 31, 2010 and 2009:

	Pension Benefits		Other Benefits	
(In millions)	**2010**	**2009**	**2010**	**2009**
Service cost	**$ 25**	$ 26	**$ 5**	$ 5
Interest cost	**135**	142	**57**	62
Expected return on plan assets	**(167)**	(175)	**(27)**	(27)
Amortization of prior service cost	**6**	6	**6**	6
Amortization of net loss (gain)	**55**	35	**(3)**	(2)
Net periodic benefit cost, excluding below	**54**	34	**38**	44
Multiemployer plans	**13**	12	**-**	-
Settlement, termination and curtailment benefits	**-**	63	**-**	11
Net periodic benefit cost	**$ 67**	$ 109	**$ 38**	$ 55

Nonretirement Postemployment Benefits

U. S. Steel recorded a charge of $112 million in the three months ended March 31, 2009 related to the recognition of current and estimated future employee costs for supplemental unemployment benefits, salary continuance and continuation of health care benefits and life insurance coverage for employees associated with the temporary idling of certain facilities and reduced production at others. The accrual was recorded in accordance with the guidance in ASC Topic 712, Compensation Nonretirement Postemployment Benefits, which requires that costs associated with such ongoing benefit arrangements be recorded no later than the period when it becomes probable that the costs will be incurred and the costs are reasonably estimable. U. S. Steel recorded a credit of less than $5 million in the three months ended March 31, 2010 related to favorable adjustments to these benefits as a result of facility restarts. As of March 31, 2010, there was no accrual for these benefits.

Settlements, Terminations and Curtailments

During the first quarter of 2009, approximately 500 non-represented employees in the United States elected to retire under a Voluntary Early Retirement Program (VERP). Expenses for termination benefits, curtailment and settlement charges totaled $53 million for defined benefit plans and $11 million for other benefit plans and were recorded in cost of sales. As discussed below, other pension charges related to the VERP were incurred for defined contribution plans totaling $13 million.

In connection with the sale of the majority of EJ&E on January 31, 2009 (see Note 4), a pension curtailment charge of approximately $10 million, which reduced the gain related to this transaction, was recognized in the first quarter of 2009.

Employer Contributions

During the first quarter of 2010, U. S. Steel made a voluntary contribution of $140 million to its main defined benefit pension plan. U. S. Steel also made $21 million in required cash contributions to the main USSC pension plans, cash payments of $13 million to the Steelworkers Pension Trust and $4 million in cash payments to other defined benefit pension plans.

During the first quarter of 2010, cash payments of $74 million had been made for other postretirement benefit payments not funded by trusts.

Company contributions to defined contribution plans totaled $2 million and $17 million for the three months ended March 31, 2010 and 2009, respectively. Contributions for the three months ended March 31, 2009 included $13 million of payments for VERP related benefits as discussed above.

The recently enacted Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 include multiple provisions impacting health care and insurance coverage in the U.S. The long-term impacts of this legislation on U. S. Steel are uncertain as we await further regulatory and rule setting guidance. The legislation eliminates the tax deductibility of Medicare Part D subsidies for retiree prescription drug coverage after 2012. U. S. Steel recorded a tax charge of approximately $27 million in the first quarter of 2010 to adjust deferred tax assets in order to recognize the estimated future tax effects of the legislation specifically on Medicare Part D subsidies (see note 9).

8. Net Interest and Other Financial Costs

Other financial costs primarily include financing costs as well as foreign currency gains and losses as a result of transactions denominated in currencies other than the functional currencies of U. S. Steel s operations. During the first quarter of 2010 and 2009, net foreign currency losses of $63 million and $34 million, respectively, were recorded in other financial costs. See note 12 for additional information on U. S. Steel s use of derivatives to mitigate its foreign currency exchange rate exposure.

9. Income Taxes

Tax benefits

The first quarter 2010 effective tax benefit rate of four percent is lower than the statutory rate largely because losses in Canada and Serbia, which are jurisdictions where we have recorded full valuation allowances on deferred tax assets, do not generate a tax benefit for accounting purposes. Also included in the first quarter 2010 tax benefit is a net tax benefit of approximately $30 million relating to adjustments to tax reserves, offset by a tax charge of approximately $27 million as a result of the U.S. health care legislation enacted in the first quarter (see note 7).

The first quarter 2010 tax benefit is based on an estimated annual effective rate, which requires management to make its best estimate of annual forecasted pretax income or loss for the year. During the year, management regularly updates forecasted annual pretax results for the various countries in which we operate based on changes in factors such as prices, shipments, product mix, plant operating performance and cost estimates. To the extent that actual pretax results for U.S. and foreign income or loss in 2010 vary from forecast estimates applied at the end of the most recent interim period, the actual tax provision or benefit recognized in 2010 could be materially different from the forecasted amount as of the end of the first quarter.

Income tax receivable

During the first quarter 2010, U. S. Steel received $208 million representing the majority of its expected federal income tax refund related to the carryback of our 2009 losses to prior years.

Deferred taxes

As of March 31, 2010, the net domestic deferred tax asset was $680 million compared to $731 million at December 31, 2009. A substantial amount of U. S. Steel s domestic deferred tax assets relates to employee benefits that will become deductible for tax purposes over an extended period of time as cash contributions are made to employee benefit plans and payments are made to retirees. As a result of our cumulative historical earnings, we continue to believe it is more likely than not that the net domestic deferred tax asset will be realized.

As of March 31, 2010, the net foreign deferred tax asset was $99 million, net of established valuation allowances of $635 million. At December 31, 2009, the net foreign deferred tax asset was $103 million, net of established valuation allowances of $575 million. Net foreign deferred tax assets will fluctuate as the value of the U.S. dollar changes with respect to the euro, the Canadian dollar and the Serbian dinar. A full valuation allowance is recorded for both the Canadian and Serbian deferred tax assets due to the absence of positive evidence to support the realizability of the deferred tax assets. If USSC and U. S. Steel Serbia (USSS) generate sufficient income, the valuation allowance of $573 million for Canadian deferred tax assets and $48 million for Serbian deferred tax assets as of March 31, 2010, would be partially or fully reversed at such time that it is more likely than not that the Company will realize the deferred tax assets. Any reversals of these amounts will result in a decrease to tax expense.

Unrecognized tax benefits

Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken, in a tax return and the benefit recognized for accounting purposes pursuant to the guidance found in ASC Topic 740 on income taxes. The total amount of unrecognized tax benefits was $65 million and $106 million as of March 31, 2010 and December 31, 2009, respectively. This decrease was primarily the result of the conclusion of certain tax examinations and the remeasurement of existing tax reserves. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $56 million and $77 million as of March 31, 2010 and December 31, 2009, respectively.

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U. S. Steel records interest related to uncertain tax positions as a part of net interest and other financial costs in the Statement of Operations. Any penalties are recognized as part of selling, general and administrative expenses. As of March 31, 2010 and December 31, 2009, U. S. Steel had accrued liabilities of $4 million for interest related to uncertain tax positions. U. S. Steel currently does not have a liability for recorded income tax penalties.

10. Common Shares and Income Per Common Share

Common Stock Issued

On May 4, 2009, U. S. Steel issued 27,140,000 shares of common stock (par value of $1 per share) at a price of $25.50 per share. The underwriting discount and third-party expenses related to the issuance of the common stock of $31 million was recorded as a decrease to additional paid-in capital, resulting in net proceeds of $661 million.

Net Loss Per Share Attributable to United States Steel Corporation Shareholders

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

Diluted net income per common share assumes the exercise of stock options and the vesting of restricted stock, restricted stock units, performance awards and the conversion of convertible notes (under the if-converted method), provided in each case the effect is dilutive. Due to the net loss position for the quarters ended March 31, 2010 and 2009, no securities were included in the computation of diluted net loss per common share because the effect would be antidilutive. However, securities granted under our 2005 Stock Incentive Plan represented 3,088,984 and 1,619,358 potentially dilutive shares for the quarters ended March 31, 2010 and 2009, respectively. Securities convertible under our Senior Convertible Notes represented 27,058,719 potentially dilutive shares for the quarter ended March 31, 2010.

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

	Three Months Ended March 31,	
(Dollars in millions, except per share amounts)	**2010**	**2009**
Net loss attributable to United States Steel Corporation shareholders	**$ (157)**	$ (439)
Plus income effect of assumed conversion-interest on convertible notes	**-**	-
Net loss after assumed conversion	**$ (157)**	$ (439)
Weighted-average shares outstanding (in thousands):		
Basic	**143,390**	116,103
Effect of convertible notes	**-**	-
Effect of stock options	**-**	-
Effect of dilutive restricted stock, performance awards and restricted stock units	**-**	-
Adjusted weighted-average shares outstanding, diluted	**143,390**	116,103
Basic earnings per common share	**$ (1.10)**	$ (3.78)
Diluted earnings per common share	**$ (1.10)**	$ (3.78)

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Dividends Paid Per Share

The dividend rate for the first quarters of 2010 and 2009 was five cents per common share and 30 cents per common share, respectively.

11. Inventories

Inventories are carried at the lower of cost or market on a worldwide basis. The first-in, first-out method is the predominant method of inventory costing in Europe and Canada. The last-in, first-out (LIFO) method is the predominant method of inventory costing in the United States. At March 31, 2010 and December 31, 2009, the LIFO method accounted for 56 percent and 49 percent of total inventory values, respectively.

(In millions)	March 31, 2010	December 31, 2009
Raw materials	**$ 449**	$ 492
Semi-finished products	**769**	741
Finished products	**319**	336
Supplies and sundry items	**110**	110
Total	**$ 1,647**	$ 1,679

Current acquisition costs were estimated to exceed the above inventory values by $850 million and $1.1 billion at March 31, 2010 and December 31, 2009, respectively. Cost of sales was reduced by an immaterial amount and $38 million in the first quarters of 2010 and 2009, respectively, as a result of liquidations of LIFO inventories.

Lower of cost or market (LCM) charges were immaterial for the three months ended March 31, 2010. During the three months ended March 31, 2009, we recorded LCM charges totaling approximately $60 million.

Inventory includes $92 million and $101 million of land held for residential or commercial development as of March 31, 2010 and December 31, 2009, respectively.

From time to time, U. S. Steel enters into coke swap agreements with other steel manufacturers designed to reduce transportation costs. U. S. Steel shipped approximately 166,000 tons and received approximately 174,000 tons of coke under swap agreements during the first three months of 2010. U. S. Steel did not ship or receive any coke under swap agreements during the first three months of 2009.

U. S. Steel also has entered into iron ore pellet swap agreements with an iron ore mining and processing company. Under these agreements, U. S. Steel shipped and received approximately 141,000 tons of iron ore pellets during the first three months of 2010 and shipped and received approximately 327,000 tons of iron ore pellets during the first three months of 2009.

The coke and iron ore pellet swaps are recorded at cost as nonmonetary transactions. There was no income statement impact related to these swaps in either 2010 or 2009.

12. Derivative Instruments

U. S. Steel is exposed to foreign currency exchange rate risks as a result of our European and Canadian operations. USSE s revenues are primarily in euros and costs are primarily in U.S. dollars, euros and Serbian dinars. USSC s revenues and costs are denominated in both Canadian and U.S. dollars. In addition, the acquisition of USSC in 2007 was funded both from the United States and through the reinvestment of undistributed earnings from USSE, creating

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intercompany monetary assets and liabilities in currencies other than the functional currency of the entities involved, which can affect income when remeasured at the end of each quarter. A $1.2 billion U.S. dollar-denominated intercompany loan (the Intercompany Loan) from a U.S. subsidiary to a European subsidiary was the primary exposure at March 31, 2010.

U. S. Steel uses euro forward sales contracts with maturities no longer than 12 months to exchange euros for U.S. dollars to manage our exposure to foreign currency exchange rate fluctuations. The gains and losses recognized on these euro forward sales contracts may also partially offset the remeasurement gains and losses recognized on the Intercompany Loan.

As of March 31, 2010, U. S. Steel held euro forward sales contracts with a total notional value of approximately $200 million. We mitigate the risk of concentration of counterparty credit risk by purchasing our forward sales contracts from several counterparties.

Derivative instruments are required to be recognized at fair value in the balance sheet. U. S. Steel has not elected to designate these euro forward sales contracts as hedges. Therefore, changes in their fair value are recognized immediately in the results of operations.

Additionally, we routinely enter into fixed-price forward physical purchase contracts to partially manage our exposure to price risk related to the purchases of natural gas and certain nonferrous metals used in the production process. Historically, the forward physical purchase contracts for natural gas and nonferrous metals have qualified for the normal purchases and normal sales exemption described in ASC Topic 815. However, due to reduced natural gas consumption in 2009, we net settled some of our excess natural gas purchase contracts for certain facilities. Therefore, the remaining contracts related to 2009 natural gas purchases at those facilities no longer met the exemption criteria and were therefore subject to mark-to-market accounting.

During 2010, all natural gas purchase contracts qualified and were accounted for in accordance with the normal purchases and normal sales exemption under ASC Topic 815 and were not subject to mark-to-market accounting.

The following summarizes the location and amounts of the fair values and gains or losses related to derivatives included in U. S. Steel s financial statements as of March 31, 2010 and December 31, 2009 and for the three months ended March 31, 2010 and 2009:

(In millions)	**Location of Fair Value in Balance Sheet**	**Fair Value March 31, 2010**	**Fair Value December 31, 2009**
Foreign exchange forward contracts	Accounts (payable) receivable	$ 10	$ (2)

	Location of Gain (Loss) on Derivative in Statement of Operations	**Amount of Gain (Loss) Three Months ended March 31, 2010**	**Amount of Gain (Loss) Three Months ended March 31, 2009**
Foreign exchange forward contracts	Other financial costs	$ 12	$ 22
Forward physical purchase contracts	Cost of Sales	N/A	$ (49)

In accordance with the guidance found in ASC Topic 820 on fair value measurements and disclosures, the fair value of our euro forward sales contracts was determined using Level 2 inputs, which are defined as significant other observable inputs. The inputs used are from market sources that aggregate data based upon market transactions. The fair value of our forward physical purchase contracts for natural gas was also determined using Level 2 inputs. The inputs used included forward prices derived from the New York Mercantile Exchange.

13. Debt

(In millions)	Interest Rates %	Maturity	March 31, 2010	December 31, 2009
2037 Senior Notes	6.65	2037	**$ 350**	$ 350
2020 Senior Notes	7.375	2020	**600**	-
2018 Senior Notes	7.00	2018	**500**	500
2017 Senior Notes	6.05	2017	**450**	450
2014 Senior Convertible Notes	4.00	2014	**863**	863
2013 Senior Notes	5.65	2013	**300**	300
Province Note (C$150 million)	1.00	2015	**147**	142
Environmental Revenue Bonds	4.75 - 6.88	2011 2030	**458**	458
Fairfield Caster Lease		2010 2012	**29**	29
Other capital leases and all other obligations		2010 2014	**25**	30
Amended Credit Agreement, $750 million	Variable	2012	**-**	-
USSK Revolver, 200 million ($270 million and $288 million at March 31, 2010 and December 31, 2009)	Variable	2011	**-**	288
USSK credit facilities, 70 million ($94 million and $101 million at March 31, 2010 and December 31, 2009)	Variable	2011 2012	**-**	-
USSS credit facilities, 40 and 800 million Serbian Dinar ($65 million and $69 million at March 31, 2010 and December 31, 2009)	Variable	2010	**-**	-
Total			**3,722**	3,410
Less Province Note fair value adjustment			**39**	40
Less unamortized discount			**11**	6
Less short-term debt and long-term debt due within one year			**21**	19
Long-term debt			**$ 3,651**	$ 3,345

Issuance of Senior Notes due 2020

On March 19, 2010, U. S. Steel issued $600 million of 7.375% Senior Notes due April 1, 2020 (2020 Senior Notes). The 2020 Senior Notes were issued at 99.125% of their principal amount. U. S. Steel received net proceeds from the offering of $582 million after fees of $13 million related to the underwriting discount and third party expenses. The fees and discount for the issuance of the 2020 Senior Notes will be amortized to interest expense over the term of the 2020 Senior Notes. The net proceeds from the issuance of the 2020 Senior Notes will be used for general corporate purposes.

The 2020 Senior Notes are senior and unsecured obligations that will rank equally in right of payment with all of our other existing and future senior indebtedness. U. S. Steel will pay interest on the notes semi-annually in arrears on April 1st and October 1st of each year, commencing on

October 1, 2010. If an event of default regarding the 2020 Senior Notes should occur and be continuing, either the trustee or the holders of not less than 25% in principal amount of the outstanding 2020 Senior Notes may declare the 2020 Senior Notes immediately due and payable. The 2020 Senior Notes were issued under U. S. Steel s shelf registration statement and are not listed on any national securities exchange.

U. S. Steel has the option to redeem the 2020 Senior Notes, at any time in whole, or from time to time in part at a price as defined within the 2020 Senior Notes. If a change of control repurchase event occurs, as defined within the 2020 Senior Notes, U. S. Steel will be required to make an offer to each holder of the 2020 Senior Notes to repurchase all or any part of that holder s 2020 Senior Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2020 Senior Notes repurchased plus any accrued and unpaid interest on the 2020 Senior Notes repurchased to, but not including, the date of repurchase.

The 2020 Senior Notes restrict our ability to create certain liens, to enter into sale leaseback transactions and to consolidate, merge, transfer or sell all, or substantially all, of our assets.

Amended Credit Agreement

On June 12, 2009, U. S. Steel entered into an amendment and restatement of its $750 million Credit Agreement dated May 11, 2007 (Amended Credit Agreement) which revised pricing, amended other customary terms and conditions and established a borrowing base formula which limits the amounts U. S. Steel can borrow to a certain percent of the value of certain domestic inventory less specified reserves. The Amended Credit Agreement contains a financial covenant requiring U. S. Steel to maintain a fixed charge coverage ratio (as further defined in the Amended Credit Agreement) of at least 1.10 to 1.00 for the most recent four consecutive quarters when availability under the Amended Credit Agreement is less than the greater of 15% of the total aggregate commitments and $112.5 million.

As of March 31, 2010, there were no amounts drawn on the Amended Credit Agreement and inventory levels supported the full $750 million of the facility. Since availability was greater than $112.5 million, compliance with the fixed charge coverage ratio covenant was not applicable. However, based on the most recent four quarters, as of March 31, 2010, we would not meet this covenant if we were to borrow more than $637.5 million. If the value or levels of inventory decrease or we are not able to meet this covenant in the future, our ability to borrow the full amount of this facility would be affected.

Receivables Purchase Agreement

U. S. Steel has a Receivables Purchase Agreement (RPA) under which trade accounts receivable are sold, on a daily basis without recourse, to U. S. Steel Receivables, LLC (USSR), a wholly owned, bankruptcy-remote, special purpose entity used only for the securitization program. USSR can then sell senior undivided interests in up to $500 million of the receivables to certain third-party commercial paper conduits for cash, while maintaining a subordinated undivided interest in a portion of the receivables. U. S. Steel has agreed to continue servicing the sold receivables at market rates. Because U. S. Steel receives adequate compensation for these services, no servicing asset or liability is recorded. The Receivables Purchase Agreement expires on September 24, 2010.

Prior to January 1, 2010, U. S. Steel accounted for transfers of receivables pursuant to the RPA as a sale. Accordingly, the accounts receivable were reflected as a reduction of receivables in the balance sheet and the proceeds and repurchases related to the securitization program were included in cash flows from operating activities in the statement of cash flows.

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On January 1, 2010, U. S. Steel adopted updates to ASC Topic 860 related to the accounting for transfers of financial assets. As a result of the adoption, transfers of receivables pursuant to our RPA no longer qualify as a sale and are now accounted for as secured borrowing transactions. Accordingly, receivable transfers as well as the related borrowings for equal amounts are required to be reflected on the consolidated balance sheet and the proceeds and repurchases related to the securitization program will be included in cash flows from financing activities in the statement of cash flows. U. S. Steel did not have any transactions under the RPA during the first quarter of 2010 or 2009.

At March 31, 2010 and December 31, 2009, there were no receivable transfers under this facility and $500 million of eligible accounts receivable could have been transferred. The net book value of U. S. Steel s retained interest in the receivables represents the best estimate of the fair market value due to the short-term nature of the receivables. The retained interest in the receivables is recorded net of the allowance for bad debts, which has historically not been significant.

USSR pays the conduits a discount based on the conduits borrowing costs plus incremental fees. We incurred insignificant costs for the three months ended March 31, 2010 and 2009 relating to fees on the RPA.

Generally, the facility provides that as payments are collected from the sold accounts receivables, USSR may elect to have the conduits reinvest the proceeds in new eligible accounts receivable. As there was no activity under this facility during the three months ended March 31, 2010 and 2009, there were no collections reinvested.

The table below summarizes the trade receivables for USSR:

(In millions)	March 31, 2010	December 31, 2009
Balance of accounts receivable-net, purchased by USSR	**$ 944**	$ 792
Revolving interest sold to conduits	**-**	-
Accounts receivable net, included in the accounts receivable balance on the balance sheet of U. S. Steel	**$ 944**	$ 792

The facility may be terminated on the occurrence and failure to cure certain events, including, among others, failure of USSR to maintain certain ratios related to the collectability of the receivables and failure to make payment under its material debt obligations and may also be terminated upon a change of control.

Other obligations

At March 31, 2010, in the event of a change in control of U. S. Steel, debt obligations totaling $3,062 million, which includes the Senior Notes and Senior Convertible Notes, may be declared immediately due and payable. In addition, the Amended Credit Agreement may be terminated and any amount outstanding thereunder 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 $46 million or provide a letter of credit to secure the remaining obligation.

In the event of a bankruptcy of Marathon Oil Corporation (Marathon), $352 million of obligations related to Environmental Revenue Bonds, the Fairfield Caster Lease and the coke battery lease at the Clairton Plant may be declared immediately due and payable.

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For information concerning the Senior Notes, the Senior Convertible Notes and other listed obligations, please refer to note 16 of the audited financial statements in the Annual Report on Form 10-K for the year ended December 31, 2009.

U. S. Steel Ko ice (USSK) credit facilities

In March 2010, USSK repaid the outstanding borrowings under its 200 million ($270 million) revolving unsecured credit facility and had no borrowings against this facility at March 31, 2010.

At March 31, 2010, USSK had no borrowings against its 40 million, 20 million and 10 million credit facilities (which approximated $94 million) and the availability was approximately $87 million due to approximately $7 million of customs and other guarantees outstanding.

U. S. Steel Serbia (USSS) credit facility

At March 31, 2010, USSS had no borrowings against its 40 million revolving credit facility and 800 million Serbian dinar overdraft facility (which total approximately $65 million). At March 31, 2010, availability, which is limited to the value of USSS s inventory of finished and semi-finished goods, was approximately $65 million.

14. Asset Retirement Obligations

U. S. Steel s asset retirement obligations primarily relate to mine and landfill closure and post-closure costs. The following table reflects changes in the carrying values of asset retirement obligations:

(In millions)	March 31, 2010	December 31, 2009
Balance at beginning of year	**45**	48
Obligations settled	**(2)**	(7)
Foreign currency translation effects	**(2)**	1
Accretion expense	**1**	3
Balance at end of period	**42**	45

Certain asset retirement obligations related to disposal costs of certain 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 their fair value.

15. Variable Interest Entities

Effective January 1, 2010, U. S. Steel adopted updates to ASC Topic 810 related to improvements to financial reporting by enterprises involved with variable interest entities. The updates to ASC Topic 810 include a criterion that requires the primary beneficiary to have the power to direct the activities that most significantly impact the economic performance of the variable interest entity. Due to the addition of this criterion, the adoption resulted in the deconsolidation of the following entities from our consolidated financial statements on a prospective basis.

Gateway Energy & Coke Company, LLC

Gateway Energy & Coke Company, LLC (Gateway) is a wholly owned subsidiary of SunCoke Energy, Inc. in which U. S. Steel has no ownership interest. Gateway has constructed a heat recovery coke plant with an expected annual capacity of 651,000 tons of coke at U. S. Steel s Granite City Works that began operations in the fourth quarter of 2009. U. S. Steel has a 15-year

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arrangement to purchase coke from Gateway under which Gateway is obligated to supply 90 percent to 105 percent of the expected annual capacity of the heat recovery coke plant, and U. S. Steel is obligated to purchase the coke from Gateway at the contract price. As of March 31, 2010, a maximum default payment of approximately $285 million would apply if U. S. Steel terminates the agreement.

There are three activities that most significantly impact Gateway s economic performance: procurement of coking coal used in the production of coke, direction of the operations associated with the production of coke and steam and direction of the sale of coke and steam. U. S. Steel and Gateway jointly direct the sale of coke and steam due to the 15-year arrangement described above; however, U. S. Steel does not have the power to direct the other activities that most significantly impact Gateway s economic performance. Since the only activity in which U. S. Steel shares power is less significant than the combination of the other significant activities, U. S. Steel is not the primary beneficiary. Accordingly, as of January 1, 2010, U. S. Steel deconsolidated Gateway and all activity with Gateway is now accounted for as third party transactions.

Daniel Ross Bridge, LLC

Daniel Ross Bridge, LLC (DRB) was established for the development of a 1,600 acre master-planned community in Hoover, Alabama. The economic performance of DRB is significantly impacted by the fair value of the underlying property. The activities that most directly impact DRB s economic performance are the development, marketing, and sale of the underlying property, none of which are directed by U. S. Steel. Since U. S. Steel does not have the power to direct the activities that most significantly impact DRB s economic performance, U. S. Steel is not the primary beneficiary. Accordingly, U. S. Steel deconsolidated DRB and began accounting for this entity using the equity method of accounting effective January 1, 2010.

16. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

Current assets and current liabilities: Fair value approximates the carrying value due to the short-term maturity of the instruments.

Investments and long-term receivables: Fair value is based on discounted cash flows. U. S. Steel is subject to market risk and liquidity risk related to its investments; however, these risks are not readily quantifiable.

Long-term debt instruments: Fair value was determined using Level 2 inputs which were derived from quoted market prices and is based on the yield on public debt where available or current borrowing rates available for financings with similar terms and maturities.

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Fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement. The following table summarizes financial instruments, excluding derivative financial instruments disclosed in Note 12, by individual balance sheet account. U. S. Steel s financial instruments at March 31, 2010 and December 31, 2009 were:

	March 31, 2010		December 31, 2009	
(In millions)	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Financial assets:				
Cash and cash equivalents	**$ 1,386**	**$ 1,386**	$ 1,218	$ 1,218
Receivables	**1,811**	**1,811**	1,423	1,423
Receivables from related parties	**151**	**151**	144	144
Investments and long-term receivables [a]	**26**	**26**	26	26
Total financial assets	**$ 3,374**	**$ 3,374**	$ 2,811	$ 2,811
Financial liabilities:				
Accounts payable [b]	**$ 1,599**	**$ 1,599**	$ 1,419	$ 1,419
Accounts payable to related parties	**68**	**68**	61	61
Accrued interest	**52**	**52**	32	32
Debt [c]	**4,571**	**3,618**	4,004	3,307
Total financial liabilities	**$ 6,290**	**$ 5,337**	$ 5,516	$ 4,819

(a) Excludes equity method investments.
(b) Includes bank checks outstanding.
(c) Excludes capital lease obligations.

Financial guarantees are U. S. Steel s only unrecognized financial instrument. For details relating to financial guarantees see note 19.

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17. Statement of Changes in Stockholders Equity

The following table reflects the first quarter 2010 and 2009 reconciliation of the carrying amount of total equity, equity attributable to United States Steel Corporation and equity attributable to the noncontrolling interests:

Three Months Ended March 31, 2010	Total	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock	Treasury Stock	Paid-in Capital	Non-Controlling Interest
Balance at beginning of year	$ 4,979		$ 4,209	$ (2,728)	$ 151	$ (608)	$ 3,652	$ 303
Comprehensive income:								
Net loss	(158)	(158)	(157)					(1)
Other comprehensive income (loss), net of tax:								
Pension and other benefit adjustments	60	60		60				
Currency translation adjustment	(18)	(18)		(18)				
Employee stock plans	3					2	1	
Dividends paid on common stock	(7)		(7)					
Adoption of ASC Topic 810	(301)							(301)
Cumulative effect of ASC Topic 810 adoption	(1)		(1)					
Balance at March 31, 2010	$ 4,557	$ (116)	$ 4,044	$ (2,686)	$ 151	$ (606)	$ 3,653	$ 1

Three Months Ended March 31, 2009	Total	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock	Treasury Stock	Paid-in Capital	Non-Controlling Interest
Balance at beginning of year	$ 5,059		$ 5,666	$ (3,269)	$ 124	$ (612)	$ 2,986	$ 164
Comprehensive income:								
Net loss	(439)	(439)	(439)					
Other comprehensive income (loss), net of tax:								
Pension and other benefit adjustments	18	18		18				
Currency translation adjustment	(72)	(72)		(71)				(1)
Employee stock plans	11					(1)	12	
Dividends paid on common stock	(35)		(35)					
Partner contributions	37							37
Balance at March 31, 2009	$ 4,579	$ (493)	$ 5,192	$ (3,322)	$ 124	$ (613)	$ 2,998	$ 200

18. Related Party Transactions

Net sales to related parties and receivables from related parties primarily reflect sales of steel products to equity and certain other investees. Generally, transactions are conducted under long-term market-based contractual arrangements. Related party sales and service transactions were $281 million and $145 million for the quarters ended March 31, 2010 and 2009, respectively.

Purchases from equity investees for outside processing services amounted to $9 million and $65 million for the quarters ended March 31, 2010 and 2009. There were no purchases of iron ore pellets from equity method investees for the quarter ended March 31, 2010. Purchases of iron ore pellets from equity investees amounted to $11 million for the quarter ended March 31, 2009.

Accounts payable to related parties include balances due to PRO-TEC Coating Company (PRO-TEC) of $65 million and $58 million at March 31, 2010 and December 31, 2009, respectively, for invoicing and receivables collection services provided by U. S. Steel. U. S. Steel, as PRO-TEC s exclusive sales agent, is responsible for credit risk related to those receivables. U. S. Steel also provides PRO-TEC marketing, selling and customer service functions. Payables to other equity investees totaled $3 million at both March 31, 2010 and December 31, 2009.

19. Contingencies and Commitments

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 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 As of March 31, 2010, U. S. Steel was a defendant in approximately 450 active cases involving approximately 3,010 plaintiffs. Many of these cases involve multiple defendants (typically from fifty to more than one hundred). Almost 2,560, or approximately 85 percent, of these claims are currently pending in jurisdictions which permit filings with massive numbers of plaintiffs. Based upon U. S. Steel s experience in such cases, it believes that the actual number of plaintiffs who ultimately assert claims against U. S. Steel will likely be a small fraction of the total number of plaintiffs. During the three months ended March 31, 2010, U. S. Steel paid approximately $2 million in settlements. These settlements and other dispositions resolved approximately 105 claims. New case filings in the first three months of 2010 added approximately 75 claims. At December 31, 2009, U. S. Steel was a defendant in approximately 440 active cases involving approximately 3,040 plaintiffs. During 2009, U. S. Steel paid approximately $7 million in settlements. These settlements and other dispositions resolved approximately 200 claims. New case filings in the year ended December 31, 2009 added approximately 190 claims. Most claims filed in 2010 and 2009 involved individual or small groups of claimants as many jurisdictions no longer permit the filing of mass complaints.

Historically, these claims against U. S. Steel fall into three major groups: (1) claims made by persons who allegedly were exposed to asbestos at U. S. Steel facilities (referred to as premises claims); (2) claims made by industrial workers allegedly exposed to products manufactured by U. S. Steel; and (3) claims made under certain federal and general maritime laws by employees of former operations of U. S. Steel. In general, the only insurance available to U. S. Steel with respect to asbestos claims is excess casualty insurance, which has multi-million dollar retentions. To date, U. S. Steel has received minimal payments under these policies relating 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 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; however,

with the decline in mass plaintiff cases, the incidence of claimants actually alleging a claim against U. S. Steel is increasing. In addition, in many asbestos cases, the claimants 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.

The amount U. S. Steel has accrued for pending asbestos claims is not material to U. S. Steel s financial position. U. S. Steel does not accrue for unasserted asbestos claims because 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. The vast majority of pending claims against U. S. Steel allege so-called premises liability-based alleged 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. In most cases the claimant also was exposed to asbestos in non-U. S. Steel settings; the relative periods of exposure between U. S. Steel and non-U. S. Steel settings vary with each claimant; and the strength or weakness of the causal link between U. S. Steel exposure and any injury vary widely as do the nature and severity of the injury claimed.

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, management believes that the ultimate resolution of these matters will not have a material adverse effect on U. S. Steel s financial condition, although the resolution of such matters could significantly impact results of operations for a particular quarter. Among the factors considered in reaching this conclusion are: (1) that over the last several years, the total number of pending claims has generally declined; (2) that it has been many years since U. S. Steel employed maritime workers or manufactured or sold asbestos containing products; and (3) U. S. Steel s history of trial outcomes, settlements and dismissals.

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 activities, which are recorded in deferred credits and other liabilities, totaled $202 million at March 31, 2010, of which $18 million was classified as current, and $203 million at December 31, 2009, of which $17 million was classified as current. Expenses related to remediation are recorded in cost of sales and totaled $1 million and $2 million for the quarters ended March 31, 2010 and 2009, respectively. 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. Due to uncertainties inherent in remediation projects and the associated liabilities, it is possible that total remediation costs for active matters and projects with ongoing study and scope development may exceed the accrued liabilities by as much as 15 to 30 percent.

Remediation Projects

U. S. Steel is involved in environmental remediation projects at or adjacent to several current and former U. S. Steel facilities and other locations that are in various stages of completion ranging from initial characterization through post-closure monitoring. Based on the anticipated scope and degree of uncertainty of projects, we categorize projects as follows:

(1*) Projects with Ongoing Study and Scope Development* are those projects which are still in the study and development phase. For these projects the extent of remediation that may be

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required is not yet known, the remediation methods and plans are not yet developed, and cost estimates cannot be determined. Therefore, material costs, in addition to the accrued liabilities for these projects, are reasonably possible.

(2*) Significant Projects with Defined Scope* are those projects with significant accrued liabilities, a defined scope and little likelihood of material additional costs.

(3) *Other Projects* are those projects with relatively small accrued liabilities for which we believe that, while additional costs are possible, they are not likely to be material, and those projects for which we do not yet possess sufficient information to form a judgment about potential costs.

Projects with Ongoing Study and Scope Development There are five environmental remediation projects where reasonably possible additional costs for completion are not currently estimable, but could be material. These projects are four Resource Conservation and Recovery Act (RCRA) programs (at Fairfield Works, Lorain Tubular, USS-POSCO Industries (UPI) and the Fairless Plant) and a voluntary remediation program at the former steel making plant at Joliet, Illinois. As of March 31, 2010, accrued liabilities for these projects totaled $4 million for the costs of studies, investigations, interim measures, design and/or remediation. It is reasonably possible that additional liabilities associated with future requirements regarding studies, investigations, design and remediation for these projects could be as much as $25 million to $45 million. Depending on agency negotiations and other factors, U. S. Steel expects that the scope of the UPI will become defined later in 2010.

Significant Projects with Defined Scope As of March 31, 2010, a total of $49 million was accrued for projects at or related to Gary Works where the scope of work is defined, including RCRA program projects, Natural Resource Damages (NRD) claims, completion of projects for the Grand Calumet River in northwest Indiana and the related Corrective Action Management Unit (CAMU), and closure costs for three hazardous waste disposal sites and one solid waste disposal site.

Additional projects with defined scope include the Municipal Industrial & Disposal Company (MIDC) site in Elizabeth, PA, the St. Louis Estuary and Upland Project in Duluth, Minnesota and a project at U. S. Steel s former Geneva Works in Geneva, Utah. As of March 31, 2010, accrued liabilities for these three additional projects totaled $98 million. U. S. Steel does not expect material additional costs related to these projects.

Other Projects There are eight other environmental remediation projects which each had an accrued liability of between $1 million and $5 million. The total accrued liability for these projects at March 31, 2010 was $16 million. These projects have progressed through a significant portion of the design phase and material additional costs are not expected.

The remaining environmental remediation projects each had an accrued liability of less than $1 million. The total accrued liability for these projects at March 31, 2010 was $8 million. We do not foresee material additional liabilities for any of these sites.

Post-Closure Costs Accrued liabilities for post-closure site monitoring and other costs at various closed landfills totaled $21 million at March 31, 2010 and were based on known scopes of work.

Administrative and Legal Costs As of March 31, 2010, U. S. Steel had an accrued liability of $6 million for administrative and legal costs related to environmental remediation projects. These accrued liabilities were based on projected administrative and legal costs for the next three years and do not change significantly from year to year.

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Capital Expenditures 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 first three months of 2010 and 2009, such capital expenditures totaled $43 million and $15 million, respectively. U. S. Steel anticipates making additional such expenditures in the future; however, the exact amounts and timing of such expenditures are uncertain because of the continuing evolution of specific regulatory requirements.

CO_2 Emissions Current and potential regulation of Greenhouse Gas emissions remains a significant issue for the steel industry, particularly for integrated steel producers such as U. S. Steel. The regulation of carbon dioxide (CO_2) emissions has either become law or is being considered by legislative bodies of many nations, including countries where we have operating facilities. The European Union (EU) has established greenhouse gas regulations based upon national allocations and a cap and trade system, in Canada, both the federal and Ontario governments have issued proposed requirements for greenhouse gas emissions and the United States House of Representatives passed the American Clean Energy and Security Act (also known as the Waxman-Markey Bill) on June 26, 2009 while in the Senate a bill has been introduced and several senators have announced they are working on a substitute bill they plan to introduce this year. The EU has issued proposed regulations under their cap and trade system for the period 2013-2020 which appear to be more stringent than the current requirements. The United States Environmental Protection Agency has classified CO_2 as a harmful gas and has also proposed new permitting requirements for facilities emitting 25,000 metric tons or more per year of CO_2 based on requirements of the Clean Air Act.

It is impossible to estimate the timing or impact of these or other future government action on U. S. Steel, although it could be significant. Such impacts may include substantial capital expenditures, costs for emission allowances, restriction of production, and higher prices for coking coal and other carbon based energy sources.

In July 2008, following approval by the European Commission of Slovakia s national allocation plan for the 2008 to 2012 trading period (NAP II), Slovakia granted USSK more CO_2 emission allowances per year than USSK received for the 2005 to 2007 trading period. Based on actual CO_2 emissions to date, we believe that USSK will have sufficient allowances for the NAP II period without purchasing additional allowances. During the quarter ended March 31, 2010, USSK entered into transactions to sell and swap a portion of our emissions allowances and recognized approximately $6 million of gains related to these transactions. These gains are reflected in the net gains on disposal of assets line on the Consolidated Statement of Operations. There were no gains related to the sale of allowances in the quarter ended March 31, 2009.

Environmental and other indemnifications Throughout its history, U. S. Steel has sold numerous properties and businesses and many of these sales included indemnifications and cost sharing agreements related to the assets that were sold. These indemnifications and cost sharing agreements have related to the condition of the property, the approved use, certain representations and warranties, matters of title and environmental matters. While most of these provisions have not specifically dealt with environmental issues, there have been transactions in which U. S. Steel indemnified the buyer for non-compliance with past, current and future environmental laws related to existing conditions and there can be questions as to the applicability of more general indemnification provisions to environmental matters. Most recent indemnifications and cost sharing agreements are of a limited nature only applying to non-compliance with past and/or current laws. Some indemnifications and cost sharing agreements only run for a specified period of time after the transactions close and others run indefinitely. In addition, current owners of property formerly owned by U. S. Steel may have common law claims and contribution rights against U. S. Steel for environmental matters. The amount of potential environmental liability

associated with these transactions and properties is not estimable due to the nature and extent of the unknown conditions related to the properties sold. Aside from the environmental liabilities already recorded as a result of these transactions due to specific environmental remediation activities and cases (included in the $202 million of accrued liabilities for remediation discussed above), there are no other known environmental liabilities related to these transactions.

Guarantees The guarantees of the indebtedness of unconsolidated entities of U. S. Steel totaled $11 million at March 31, 2010. In the event that any default related to the guaranteed indebtedness occurs, U. S. Steel has access to its interest in the assets of the investees to reduce its potential losses under the guarantees.

Contingencies related to the Separation from Marathon In the event of a bankruptcy of Marathon, certain of U. S. Steel s operating lease obligations in the amount of $24 million as of March 31, 2010 may be declared immediately due and payable.

Antitrust Class Actions In a series of lawsuits filed in federal court in the Northern District of Illinois beginning September 12, 2008, individual direct or indirect buyers of steel products have asserted that eight steel manufacturers, including U. S. Steel, conspired in violation of antitrust laws to restrict the domestic production of raw steel and thereby to fix, raise, maintain or stabilize the price of steel products in the United States. The cases are filed as class actions and claim treble damages for the period 2005 to present, but do not allege any damage amounts. U. S. Steel is vigorously defending these lawsuits and does not believe that it has any liability regarding these matters.

Investment Canada Action On July 17, 2009, the Attorney General of Canada initiated a proceeding under Section 40 of Canada s Investment Canada Act by filing an application in the Canadian federal court that seeks to impose a financial penalty on U. S. Steel due to the Company s alleged failure to comply with two of the 31 undertakings made by U. S. Steel to the Minister of Industry in connection with the 2007 acquisition of Stelco. The specific undertakings at issue concern production and employment levels anticipated at U. S. Steel Canada Inc. (USSC) assuming certain business conditions. In response to a previous written demand from the Minister with respect to this matter, the Company provided full disclosure regarding the operations at USSC and the impact that the sudden and severe world-wide economic downturn has had on the global steel sector and all of the Company s North American operations, including operations at USSC. In accordance with the specific language of the undertakings at issue, the unprecedented economic downturn, the effects of which were beyond the control of the company, expressly excuse any non-attainment of the production and employment levels targeted by the 2007 submission. The Company is vigorously defending the matter and believes that the action is without justification or authority.

Randle Reef The Canadian and Ontario governments have identified a sediment deposit in Hamilton Harbor near USSC s Hamilton Works for remediation, for which the regulatory agencies estimate expenditures of approximately C$105 million (approximately $103 million). The national and provincial governments have each allocated C$30 million (approximately $29 million) for this project and they have stated that they will be looking for local sources, including industry, to fund C$30 million (approximately $29 million). USSC has committed C$7 million (approximately $7 million) as its contribution. Funding sources for the balance of the estimated project cost remain to be identified and additional contributions may be sought.

Other contingencies 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 $15 million at March 31, 2010). 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.

Insurance U. S. Steel maintains insurance for certain property damage, equipment, business interruption and general liability exposures; however, insurance is applicable only after certain deductibles and retainages. U. S. Steel is self-insured for certain other exposures including workers compensation (where permitted by law) and auto liability. Liabilities are recorded for workers compensation and personal injury obligations. Other costs resulting from losses under deductible or retainage amounts or not otherwise covered by insurance 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 $165 million as of March 31, 2010, 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. Restricted cash, which is primarily recorded in other noncurrent assets, totaled $148 million at March 31, 2010, of which $24 million was classified as current, and $157 million at December 31, 2009, none of which was classified as current.

Commitments At March 31, 2010, U. S. Steel s contractual commitments to acquire property, plant and equipment totaled $197 million.

Unconditional Purchase Obligations U. S. Steel is obligated to make payments under unconditional purchase obligations, including take-or-pay contracts. Payments for contracts with remaining terms in excess of one year are summarized below (in millions):

Remainder of 2010	2011	2012	2013	2014	Later Years	Total
$1,866	$ 1,707	$ 1,102	$ 993	$ 354	$ 2,972	$ 8,994

The majority of U. S. Steel s unconditional purchase obligations relate to the supply of industrial gases, coking coal, coke, and other raw materials used in the ordinary course of U. S. Steel s business with terms ranging from two to 16 years. Total payments under take-or-pay contracts were approximately $140 million and $90 million for the three months ended March 31, 2010 and 2009, respectively.

20. Subsequent Event

On April 15, 2010, the United Steelworkers (USW) represented employees at U. S. Steel Canada s Lake Erie Works ratified a new three year labor contract. The agreement covers approximately 800 USW represented employees and includes a signing bonus of $3,000 per employee. Additionally, the agreement closes the defined benefit pension plan to new entrants.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain sections of Management s Discussion and Analysis include forward-looking statements concerning trends or events potentially affecting the businesses of United States Steel Corporation (U. S. Steel). These statements typically contain words such as anticipates, believes, estimates, expects, intends or similar words indicating that future outcomes are not known with certainty and are subject to risk factors that could cause these outcomes to differ significantly from those projected. In accordance with safe harbor provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors that could cause future outcomes to differ materially from those set forth in forward-looking statements. For discussion of risk factors affecting the businesses of U. S. Steel, see Item 1A. Risk Factors and Supplementary Data Disclosures About Forward-Looking Statements in U. S. Steel s Annual Report on Form 10-K for the year ended December 31, 2009, and Item 1A. Risk Factors in this Form 10-Q. References in this Quarterly Report on Form 10-Q to U. S. Steel, the Company, we, us and our refer to U. S. Steel and its consolidated subsidiaries unless otherwise indicated by the context.

U. S. Steel s operating results are beginning to reflect the benefits of the gradual economic recovery that appears to be underway in North America and Europe. Our raw steel capability utilization rate in the first quarter of 2010 was 73% for North American operations and 87% for European operations, a significant improvement as compared to first quarter of 2009 operating rates of 38% and 55%, respectively and fourth quarter of 2009 operating rates of 64% and 80%, respectively. Adjusting for our Lake Erie Works, which is not expected to be available until late in the second quarter, in recent weeks, we have operated our North American steelmaking facilities at over 95% of raw steel capability. Our operating loss for the first quarter of 2010 was $57 million, a significant improvement from the $478 million loss in the first quarter of 2009 and from the $329 million loss in the fourth quarter of 2009. As further described below we expect this trend of improving results to continue, resulting in operating income for each of our three segments during the second quarter.

The recently enacted Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 include multiple provisions impacting health care and insurance coverage in the U.S. The long-term impacts of this legislation on U. S. Steel are uncertain as we await further regulatory and rule setting guidance. The legislation eliminates the tax deductibility of Medicare Part D subsidies for retiree prescription drug coverage after 2012. U. S. Steel recorded a tax charge of approximately $27 million in the first quarter of 2010 to adjust deferred tax assets in order to recognize the estimated future tax effects of the legislation specifically on Medicare Part D subsidies.

RESULTS OF OPERATIONS

Net sales by segment for the first quarter of 2010 and 2009 are set forth in the following table:

	Quarter Ended March 31,		%
(Dollars in millions, excluding intersegment sales)	**2010**	**2009**	**Change**
Flat-rolled Products (Flat-rolled)	**$ 2,455**	$ 1,592	54%
U. S. Steel Europe (USSE)	**964**	622	55%
Tubular Products (Tubular)	**445**	515	-14%
Total sales from reportable segments	**3,864**	2,729	42%
Other Businesses	**32**	21	52%
Net sales	**$ 3,896**	$ 2,750	42%

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Management s analysis of the **percentage change in net sales** for U. S. Steel s reportable business segments for the quarter ended March 31, 2010 versus the quarter ended March 31, 2009 is set forth in the following table:

Quarter Ended March 31, 2010 versus Quarter Ended March 31, 2009

	Steel Products [a]				**Coke &**	
	Volume	**Price**	**Mix**	**FX [b]**	**Other**	**Net Change**
Flat-rolled	57%	-12%	0%	3%	6%	54%
USSE	67%	-10%	-11%	8%	1%	55%
Tubular	53%	-64%	0%	0%	-3%	-14%

(a) Excludes intersegment sales
(b) Foreign currency effects

Net sales were $3,896 million in the first quarter of 2010, compared with $2,750 million in the same quarter of last year. The increase in sales for the Flat-rolled segment primarily reflected increased shipments (up 1.4 million tons) partially offset by lower average realized prices (down $61 per ton). The increase in sales for the European segment was due to increased shipments (up 0.6 million tons) and favorable changes in foreign currency translation impacts partially offset by lower reported average realized prices (down $58 per ton) and a lower value-added product mix. The decrease in sales for the Tubular segment resulted primarily from lower average realized prices (down $964 per ton) partially offset by higher shipments (up 0.1 million tons).

Pension and other benefits costs

Defined benefit and multiemployer pension plan costs totaled $67 million in the first quarter of 2010, compared to $109 million in the first quarter of 2009. The decrease primarily reflects the absence of expenses incurred in the first quarter of 2009 as a result of a voluntary early retirement program (VERP) affecting approximately 500 non-represented employees in the United States. The VERP resulted in settlement, termination and curtailment charges of $53 million in the first quarter of 2009. The decrease is also the result of a $10 million pension curtailment charge during the first quarter of 2009 resulting from the sale of a majority of the operating assets of Elgin, Joliet and Eastern Railway Company (EJ&E).

Costs related to defined contribution plans totaled $2 million in the first quarter of 2010, compared to $17 million in last year s first quarter which included $13 million for VERP related benefits under these plans.

Other benefits costs, including multiemployer plans, totaled $38 million in the first quarter of 2010, compared to $55 million in the first quarter of 2009. The decrease was primarily due to the absence of $11 million of termination charges which were recorded in the first quarter of 2009 related to the VERP.

Nonretirement postemployment benefits

U. S. Steel incurred costs of $112 million in the first quarter of 2009 related to the recognition of current and estimated future layoff benefits associated with the temporary idling of certain facilities and reduced production at others. U. S. Steel recorded a credit of less than $5 million in the three months ended March 31, 2010 related to favorable adjustments to these benefits as a result of facility restarts.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses were $148 million in the first quarter of 2010, compared to $143 million in the first quarter of 2009. Pension and other benefits costs included in SG&A increased by $8 million in the first quarter of 2010 as compared to the first quarter of 2009.

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(Loss) income from operations by segment for the first quarters of 2010 and 2009 is set forth in the following table:

	Quarter Ended March 31,		%
(Dollars in millions)	2010	2009	Change
Flat-rolled	(80)	$ (422)	81%
USSE	12	(159)	108%
Tubular	45	127	-65%
Total loss from reportable segments	(23)	(454)	95%
Other Businesses	10	(3)	433%
Segment loss from operations	(13)	(457)	97%
Retiree benefit expenses	(44)	(32)	-38%
Other items not allocated to segments:			
Net gain on sale of assets	-	97	
Workforce reduction charges	-	(86)	
Total loss from operations	$ (57)	$ (478)	88%

Segment results for Flat-rolled

	Quarter Ended March 31,		%
	2010	2009	Change
Loss from operations ($ millions)	$ (80)	$ (422)	
Raw steel production (mnt)	4,383	2,279	92%
Capability utilization	73%	38%	92%
Steel shipments (mnt)	3,572	2,123	68%
Average realized steel price per ton	$ 654	$ 715	-9%

The significant improvement in Flat-rolled results in the first quarter of 2010 as compared to the same period in 2009 resulted mainly from significant increases in operating rates from 38% to 73% raw steel capability utilization, decreased spending and the related operating efficiencies (approximately $220 million), the absence of layoff benefit and natural gas purchase contract mark-to-market charges recorded in the first quarter of 2009 as a result of plant idlings (approximately $140 million), reduced energy costs (approximately $60 million), the absence of lower cost or market related inventory charges recorded in the first quarter of 2009 (approximately $20 million), higher income from equity investments (approximately $10 million) and higher income from increased steel substrate sales to our Tubular segment (approximately $20 million). These were partially offset by net unfavorable changes in commercial effects (approximately $90 million) and higher raw material costs (approximately $40 million).

Segment results for USSE

	Quarter Ended March 31,		%
	2010	2009	Change
Income (loss) from operations ($ millions)	$ 12	$ (159)	
Raw steel production (mnt)	1,588	999	59%
Capability utilization	87%	55%	59%
Steel shipments (mnt)	1,522	897	70%
Average realized steel price per ton	$ 614	$ 672	-9%

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The improvement in USSE results in the first quarter of 2010 as compared to the same period in 2009 was primarily due to lower raw material costs (approximately $170 million), the absence of lower of cost or market related inventory charges recorded in the first quarter of 2009 (approximately $40 million), reduced energy costs (approximately $30 million), favorable changes in foreign currency translation effects ($20 million) and increased operating efficiencies ($20 million). These were partially offset by net unfavorable changes in commercial effects (approximately $120 million).

Segment results for Tubular

	Quarter Ended March 31,		%
	2010	**2009**	**Change**
Income from operations ($ millions)	**$ 45**	$ 127	-65%
Steel shipments (mnt)	**310**	207	50%
Average realized steel price per ton	**$ 1,389**	$ 2,353	-41%

The decrease in Tubular results in the first quarter of 2010 as compared to the same period in 2009 resulted mainly from net unfavorable changes in commercial effects (approximately $150 million) partially offset by decreased spending and increased operating efficiencies (approximately $40 million), the absence of layoff benefit charges recorded in the first quarter of 2009 ($20 million) and lower costs of substrate steel purchases (approximately $10 million).

Results for Other Businesses

Other Businesses generated income of $10 million in the first quarter of 2010, compared to a loss of $3 million in the first quarter of 2009. The increase resulted primarily from increased results at our transportation businesses in line with the general economic recovery.

Items not allocated to segments

The increase in **retiree benefit expenses** for the first quarter of 2010 compared to the first quarter of 2009 primarily resulted from reduced expected returns on lower market related values of pension plan assets and higher amortization of unrecognized losses both of which relate to pension plan asset losses experienced in 2008.

We recorded a $97 million pre-tax **net gain on sale of assets** in the first quarter of 2009 as a result of the sale of a majority of the operating assets of EJ&E. The net gain included a pension curtailment charge of approximately $10 million.

Workforce reduction charges of $86 million in the first quarter of 2009 reflected employee severance and net benefit charges related to a VERP offered to certain non-represented employees in the United States.

Net interest and other financial costs

	Quarter Ended March 31,		%
(Dollars in millions)	**2010**	**2009**	**Change**
Interest and other financial costs	**$ 48**	$ 39	23%
Interest income	**(3)**	(2)	50%
Foreign currency losses	**63**	34	85%
Total net interest and other financial costs	**$ 108**	$ 71	52%

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The unfavorable change in net interest and other financial costs in the first quarter of 2010 compared to the same period last year was mainly due to increased foreign currency losses, most of which relates to accounting remeasurement effects on a U.S. dollar-denominated intercompany loan (the Intercompany Loan) from a U.S. subsidiary to a European subsidiary that had an outstanding balance of $1.2 billion at March 31, 2010, and related euro-U.S. dollar derivatives activity, which we use to mitigate our foreign currency exchange rate exposure. For additional information on U. S. Steel s foreign currency exchange activity, see Note 12 to the Financial Statements and Item 3. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.

The **income tax benefit** in the first quarter of 2010 was $7 million, compared to $110 million in the first quarter of 2009. The first quarter of 2010 effective tax benefit rate of four percent is lower than the statutory rate largely because losses in Canada and Serbia, which are jurisdictions where we have recorded full valuation allowances on deferred tax assets, do not generate a tax benefit for accounting purposes. Also included in the first quarter 2010 tax benefit is a net tax benefit of approximately $30 million resulting from the conclusion of certain tax return examinations and the remeasurement of existing tax reserves, offset by a tax charge of approximately $27 million as a result of the U.S. health care legislation enacted in the first quarter.

The first quarter of 2009 effective tax benefit rate of 20 percent was lower than the statutory rate because losses in the jurisdictions noted above do not generate a tax benefit for accounting purposes. Additionally, the first quarter of 2009 tax benefit included $35 million of tax expense related to the net gain on the sale of EJ&E.

The first quarter 2010 tax benefit is based on an estimated annual effective rate, which requires management to make its best estimate of annual forecasted pretax income or loss for the year. During the year, management regularly updates forecasted annual pretax results for the various countries in which we operate based on changes in factors such as prices, shipments, product mix, plant operating performance and cost estimates. To the extent that actual pretax results for U.S. and foreign income or loss in 2010 vary from forecast estimates applied at the end of the most recent interim period, the actual tax provision or benefit recognized in 2010 could be materially different from the forecasted amount as of the end of the first quarter.

At March 31, 2010, the net domestic deferred tax asset was $680 million compared to $731 million at December 31, 2009. A substantial amount of U. S. Steel s domestic deferred tax asset relates to employee benefits that will become deductible for tax purposes over an extended period of time as cash contributions are made to employee benefit plans and payments are made to retirees. As a result of our cumulative historical earnings, we continue to believe it is more likely than not that the net domestic deferred tax asset will be realized.

At March 31, 2010, the net foreign deferred tax asset was $99 million, net of established valuation allowances of $635 million. At December 31, 2009, the net foreign deferred tax asset recorded was $103 million, net of established valuation allowances of $575 million. Net foreign deferred tax assets will fluctuate as the value of the U.S. dollar changes with respect to the euro, the Canadian dollar and the Serbian dinar. A full valuation allowance is recorded for both the Canadian and Serbian deferred tax assets due to the absence of positive evidence to support the realizability of the deferred tax assets. If U. S. Steel Canada Inc. (USSC) and U. S. Steel Serbia (USSS) generate sufficient income, the valuation allowance of $573 million for Canadian deferred tax assets and $48 million for Serbian deferred tax assets as of March 31, 2010, would be partially or fully reversed at such time that it is more likely than not that the Company will realize the deferred tax assets. Any reversals of these amounts will result in a decrease to tax expense.

For further information on income taxes see note 9 to the Financial Statements.

The **net loss attributable to United States Steel Corporation** was $157 million in the first quarter of 2010, compared to $439 million in the first quarter of 2009. The improvement primarily reflects the factors discussed above.

BALANCE SHEET

Receivables increased by $395 million from year-end 2009 as first quarter 2010 shipment volumes increased compared to the fourth quarter of 2009.

Inventories remained consistent with year-end 2009.

Income tax receivable decreased by $193 million from year-end 2009 primarily due to a $208 million federal income tax refund received in the first quarter of 2010 as a result of carrying back our 2009 losses to prior years.

Accounts payable increased by $196 million from year-end 2009 primarily due to increased production levels compared to the fourth quarter of 2009.

Payroll and benefits payable decreased by $143 million from year end 2009 mainly due to U. S. Steel s $140 million voluntary pension contribution to our main defined benefit pension plan.

CASH FLOW

Net cash used in operating activities was $59 million for the first quarter of 2010, compared to net cash provided by operating activities of $309 million in the same period last year, reflecting changes in working capital for the respective periods as we significantly reduced working capital in the first quarter of 2009 in line with business conditions at the time, partially offset by improved operating results in the first quarter of 2010. Additionally, we made a $140 million voluntary pension contribution to our main defined benefit pension plan in the first quarter of 2010 and we received a $208 million U.S. federal tax refund, both as discussed above.

Capital expenditures in the first quarter of 2010 were $125 million, compared with $118 million in the same period in 2009. Flat-rolled expenditures were $80 million and included spending for development of an enterprise resource planning (ERP) system, blast furnace infrastructure projects, large mobile equipment purchases for iron ore operations and various other infrastructure, environmental and strategic projects. USSE expenditures of $44 million were mainly for environmental projects and a coke oven gas desulphurization cost reduction project at U. S. Steel Ko ice (USSK).

Capital expenditures variable interest entities for 2009 reflects spending for the construction of a non-recovery coke plant by Gateway Energy & Coke Company, LLC (Gateway), which will supply Granite City Works. This spending was consolidated in our financial results but was funded by Gateway and, therefore, was completely offset by distributions from noncontrolling interests in financing activities. The plant began operations in the fourth quarter of 2009. As of January 1, 2010, Gateway was deconsolidated from our financial statements on a prospective basis as a result of the adoption of updates to Accounting Standards Codification (ASC) Topic 810 related to improvements to financial reporting by enterprises involved with variable interest entities.

U. S. Steel s domestic contract commitments to acquire property, plant and equipment at March 31, 2010, totaled $197 million.

Capital expenditures for 2010 are now expected to total approximately $560 million. While 2010 spending will remain focused largely on environmental and other infrastructure projects, we are also pursuing a number of projects of long-term strategic importance. In support of our long-term coke and coke substitute requirements, we have restarted engineering and construction of a technologically and environmentally advanced battery, at the Clairton Plant of Mon Valley Works in Pennsylvania; applied for permits and started engineering on up to 1 million tons per year of carbon alloy facilities, which

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utilize an environmentally friendly, energy efficient and flexible production technology, at Gary Works in Indiana; and applied f