UNITED STATES STEEL CORP
Form 10-Q
July 27, 2016

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 June 30, 2016
Or

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

For the transition period from to .
(Exact name of registrant as specified in its charter)

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

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

(412) 433-1121
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [P] No [ ]

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No P

Common stock outstanding at July 21, 2016 – 146,730,634 shares

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

UNITED STATES STEEL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions, except per share amounts)	2016	2015	2016	2015
Net sales:				
Net sales	$2,320	$2,509	$4,346	$5,455
Net sales to related parties (Note 18)	264	391	579	717
Total	2,584	2,900	4,925	6,172
Operating expenses (income):				
Cost of sales (excludes items shown below)	2,397	2,792	4,833	5,858
Selling, general and administrative expenses	64	107	133	209
Depreciation, depletion and amortization	129	138	258	282
Earnings from investees	(28)	(17)	(73)	(23)
Loss on write-down of retained interest in USSC (Note 21)	—	255	—	255
Restructuring and other charges (Note 19)	(6)	19	4	172
Net (gain) loss on disposal of assets	—	(1)	3	(1)
Other income, net	—	(1)	—	(1)
Total	2,556	3,292	5,158	6,751
Earnings (loss) before interest and income taxes	28	(392)	(233)	(579)
Interest expense	60	53	115	104
Interest income	(2)	—	(3)	—
Loss on debt extinguishment	24	—	22	—
Other financial (income) costs	(1)	2	12	13
Net interest and other financial costs (Note 7)	81	55	146	117
Loss before income taxes	(53)	(447)	(379)	(696)
Income tax (benefit) provision (Note 9)	(7)	(186)	7	(360)
Net loss	(46)	(261)	(386)	(336)
Less: Net earnings attributable to noncontrolling interests	—	—	—	—
Net loss attributable to United States Steel Corporation	$(46)	$(261)	$(386)	$(336)
Loss per common share (Note 10):				
Loss per share attributable to United States Steel Corporation stockholders:				
-Basic	$(0.32)	$(1.79)	$(2.64)	$(2.31)
-Diluted	$(0.32)	$(1.79)	$(2.64)	$(2.31)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2016	2015	2016	2015
Net loss	$(46)	$(261)	$(386)	$(336)
Other comprehensive (loss) income, net of tax:				
Changes in foreign currency translation adjustments	(31)	25	31	(78)
Changes in pension and other employee benefit accounts	42	44	(182)	87
Changes in unrecognized losses on derivatives	11	—	21	—
Total other comprehensive (loss) income, net of tax	22	69	(130)	9
Comprehensive loss including noncontrolling interest	(24)	(192)	(516)	(327)
Comprehensive income attributable to noncontrolling interest	—	—	—	—
Comprehensive loss attributable to United States Steel Corporation	$(24)	$(192)	$(516)	$(327)

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

UNITED STATES STEEL CORPORATION
CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 820	$ 755
Receivables, less allowance of $26 and $28	1,091	864
Receivables from related parties, less allowance of $271 and $254 (Note 18)	159	199
Inventories (Note 11)	1,675	2,074
Other current assets	32	25
Total current assets	3,777	3,917
Property, plant and equipment	14,412	14,253
Less accumulated depreciation and depletion	10,106	9,842
Total property, plant and equipment, net	4,306	4,411
Investments and long-term receivables, less allowance of $7 in both periods	534	540
Long-term receivables from related parties, less allowance of $1,599 and $1,446 (Note 18)	—	—
Intangibles – net (Note 5)	193	196
Deferred income tax benefits (Note 9)	14	15
Other noncurrent assets	117	88
Total assets	$ 8,941	$ 9,167
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 1,542	$ 1,412
Accounts payable to related parties (Note 18)	89	81
Payroll and benefits payable	455	462
Accrued taxes	109	99
Accrued interest	46	49
Short-term debt and current maturities of long-term debt (Note 13)	82	45
Total current liabilities	2,323	2,148
Long-term debt, less unamortized discount and debt issuance costs (Note 13)	3,058	3,093
Employee benefits	1,260	1,101
Deferred income tax liabilities (Note 9)	28	29
Deferred credits and other noncurrent liabilities	358	359
Total liabilities	7,027	6,730
Contingencies and commitments (Note 20)		
Stockholders' Equity (Note 16):		
Common stock (150,925,911 shares issued) (Note 10)	151	151
Treasury stock, at cost (4,211,688 and 4,644,867 shares)	(297)	(339)
Additional paid-in capital	3,555	3,603
(Accumulated deficit) retained earnings	(197)	190
Accumulated other comprehensive loss (Note 17)	(1,299)	(1,169)
Total United States Steel Corporation stockholders' equity	1,913	2,436
Noncontrolling interests	1	1
Total liabilities and stockholders' equity	$ 8,941	$ 9,167

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

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

(Dollars in millions)	Six Months Ended June 30, 2016	2015
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net loss	$(386)	$(336)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	258	282
Loss on write-down of retained interest in USSC (Note 21)	—	255
Restructuring and other charges (Note 19)	4	172
Provision for doubtful accounts	—	(16)
Pensions and other postretirement benefits	(21)	(24)
Deferred income taxes	2	(345)
Net loss (gain) on disposal of assets	3	(1)
Distributions received, net of equity investees earnings	(70)	(18)
Changes in:		
Current receivables	(182)	371
Inventories	404	142
Current accounts payable and accrued expenses	213	(351)
Income taxes receivable/payable	6	18
Bank checks outstanding	9	11
All other, net	73	(9)
Net cash provided by operating activities	313	151
Investing activities:		
Capital expenditures	(217)	(212)
Acquisitions (Note 4)	—	(25)
Disposal of assets	1	1
Change in restricted cash, net	(3)	7
Investments, net	(15)	(2)
Net cash used in investing activities	(234)	(231)
Financing activities:		
Issuance of long-term debt, net of financing costs	958	—
Repayment of long-term debt	(962)	(18)
Receipts from exercise of stock options	—	1
Dividends paid	(15)	(15)
Net cash used in financing activities	(19)	(32)
Effect of exchange rate changes on cash	5	(32)
Net increase (decrease) in cash and cash equivalents	65	(144)
Cash and cash equivalents at beginning of year	755	1,354
Cash and cash equivalents at end of period	$820	$1,210

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

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation and Significant Accounting Policies

United States Steel Corporation produces and sells steel products, including flat-rolled and tubular products, in North America and Central Europe. Operations in North America also include iron ore and coke production facilities, railroad services and real estate operations. Operations in Europe also include coke production facilities.

The year-end Consolidated Balance Sheet data was derived from audited statements but does not include all disclosures required for complete financial statements by accounting principles generally accepted in the United States of America (U.S. GAAP). The other information in these financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair statement of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. Additional information is contained in the United States Steel Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which should be read in conjunction with these financial statements.

Revision of Prior Period Financial Statements

During 2015, the Company identified a prior period error related to the classification of unpaid capital expenditures in the Consolidated Statements of Cash Flows that impacted the quarterly interim financial statements in 2015. As a result, the Consolidated Statement of Cash Flows for the the six months ended June 30, 2015 has been revised to reflect a decrease in cash provided by operating activities and a decrease in cash used in investing activities of $64 million. The Company has concluded the impact of this error was not material to the previously filed financial statements.

2. New Accounting Standards

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

On February 25, 2016, the FASB issued Accounting Standards Update 2016-02, Leases (ASU 2016-02). ASU 2016-02 supersedes prior lease accounting guidance. Under ASU 2016-02, for operating leases, a lessee should recognize in its statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term; recognize a single lease cost, which is allocated over the lease term, generally on a straight line basis; and classify all cash payments within the operating activities in the statement of cash flows. For financing leases, a lessee is required to recognize a right-of-use asset; and a lease liability; recognize interest on the lease liability separately from amortization of the right-of-use asset, and classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability within the operating activities in the statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. In addition, at the inception of a contract, an entity should determine whether the contract is or contains a lease. ASU 2016-02 is effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, using a modified retrospective approach. U. S. Steel is evaluating the financial statement implications of adopting ASU 2016-02.

On November 20, 2015, the FASB issued Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. U. S. Steel adopted ASU 2015-17 in the fourth quarter of 2015 using the retrospective approach for all periods presented.

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

On April 7, 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 changes the presentation of debt issuance costs in financial statements and requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. An entity is required to apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. On August 16, 2015, the FASB issued ASU 2015-15 to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03. Effective January 1, 2016, U. S. Steel retroactively adopted ASU 2015-03. As a result, debt issuance costs which were a component of other non-current assets in the Consolidated Balance Sheets were reclassified and are now reflected as a reduction of long-term debt. As of June 30, 2016 and December 31, 2015, other non-current assets and long-term debt in the Consolidated Balance Sheets decreased by approximately $39 million and $23 million, respectively.

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

3. Segment Information

U. S. Steel has three reportable segments: Flat-Rolled Products (Flat-Rolled), U. S. Steel Europe (USSE), and Tubular Products (Tubular). The results of our railroad and real estate businesses that do not constitute reportable segments are combined and disclosed in the Other Businesses category.

Effective January 1, 2015, the Flat-Rolled segment was realigned to better serve customer needs through the creation of five commercial entities to specifically address customers in the automotive, consumer (which includes the packaging, appliance and construction industries) industrial, service center and mining market sectors. Beginning January 1, 2016, the Flat-Rolled segment was further streamlined and consolidated to consist of three commercial entities: automotive, consumer and the combined industrial, service center and mining commercial entities. These realignments did not affect the Company's reportable segments.

The chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being earnings (loss) before interest and income taxes. Earnings (loss) before interest and income taxes for reportable segments and Other Businesses does not include net interest and other financial costs (income), income taxes, postretirement benefit expenses (other than service cost and amortization of prior service cost for active employees) and certain other items that management believes are not indicative of future results.

Information on segment assets is not disclosed, as it is not reviewed by the chief operating decision maker. The chief operating decision maker assesses the Company's assets on an enterprise wide level, based upon the projects that yield the greatest return to the Company as a whole, and not on an individual segment level.

The accounting principles applied at the operating segment level in determining earnings (loss) before interest and income taxes are generally the same as those applied at the consolidated financial statement level. The transfer value for steel rounds from Flat-Rolled to Tubular was based on cost. In the third quarter of 2015, the blast furnace and associated steelmaking operations, along with most of the flat-rolled finishing operations at Fairfield Works were shutdown. Therefore, Flat-Rolled is currently not supplying raw steel for rounds production to Tubular. All other intersegment sales and transfers are accounted for at market-based prices and are eliminated at the corporate consolidation level. Corporate-level selling, general and administrative expenses and costs related to certain former businesses are allocated to the reportable segments and Other Businesses based on measures of activity that management believes are reasonable.

The results of segment operations for three months ended June 30, 2016 and 2015 are:

(In millions) Three Months Ended June 30, 2016	Customer Sales	Intersegment Sales	Net Sales	Earnings (loss) from investees	Earnings (Loss) Before Interest and Income Taxes
Flat-Rolled	$ 1,926	$ —	$ 1,926	$ 27	$ 6
USSE	565	1	566	—	55
Tubular	81	2	83	2	(78)
Total reportable segments	2,572	3	2,575	29	(17)
Other Businesses	12	25	37	(1)	10
Reconciling Items and Eliminations	—	(28)	(28)	—	35
Total	$ 2,584	$ —	$ 2,584	$ 28	$ 28
Three Months Ended June 30, 2015					
Flat-Rolled	$ 2,125	$ 69	$ 2,194	$ 17	$ (64)
USSE	600	1	601	—	20
Tubular	160	—	160	2	(66)
Total reportable segments	2,885	70	2,955	19	(110)
Other Businesses	15	25	40	(2)	6
Reconciling Items and Eliminations	—	(95)	(95)	—	(288)
Total	$ 2,900	$ —	$ 2,900	$ 17	$ (392)

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

(In millions) Six Months Ended June 30, 2016	Customer Sales	Intersegment Sales	Net Sales	Earnings (loss) from investees	Earnings (Loss) Before Interest and Income Taxes
Flat-Rolled	$ 3,657	$ 16	$3,673	$ 71	$ (182)
USSE	1,041	2	1,043	—	41
Tubular	190	1	191	4	(142)
Total reportable segments	4,888	19	4,907	75	(283)
Other Businesses	37	53	90	(2)	24
Reconciling Items and Eliminations	—	(72)	(72)	—	26
Total	$ 4,925	$ —	$4,925	$ 73	$ (233)
Six Months Ended June 30, 2015					
Flat-Rolled	$ 4,318	$ 173	$4,491	$ 22	$ (131)
USSE	1,292	1	1,293	—	57
Tubular	531	—	531	4	(65)
Total reportable segments	6,141	174	6,315	26	(139)
Other Businesses	31	54	85	(3)	14
Reconciling Items and Eliminations	—	(228)	(228)	—	(454)
Total	$ 6,172	$ —	$6,172	$ 23	$ (579)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2016	2015	2016	2015
Items not allocated to segments:				
Postretirement benefit (expense) [(a)]	$12	$(14)	$28	$(27)
Other items not allocated to segments:				
Loss on write-down of retained interest in USSC (Note 21)	—	(255)	—	(255)
Restructuring and other charges and adjustments [(b)]	23	(19)	(2)	(19)
Loss on shutdown of coke production facilities [(c)]	—	—	—	(153)
Total other items not allocated to segments	23	(274)	(2)	(427)
Total reconciling items	$35	$(288)	$26	$(454)

[(a)] Consists of the net periodic benefit cost elements, other than service cost and amortization of prior service cost for active employees, associated with our defined pension, retiree health care and life insurance benefit plans.
[(b)] For the three and six months ended June 30, 2016 approximately $(17) million and $(2) million is included in Cost of sales, respectively and approximately$(6) million and $4 million is included in the Restructuring and other charges in the Consolidated Statement of Operations, respectively. See Note 19 to the Consolidated Financial Statements.
[(c)] Included in Restructuring and other charges on the Consolidated Statement of Operations. See Note 19 to the Consolidated Financial Statements.

4. Acquisition

On May 29, 2015, the Company purchased the 50 percent joint venture interest in Double Eagle Steel Coating Company (DESCO) that it did not previously own for $25 million. DESCO's electrolytic galvanizing line (EGL) has become part of the larger operational footprint of U. S. Steel's Great Lakes Works within the Flat-Rolled segment. The EGL is increasing our ability to provide industry leading advanced high strength steels, including

Gen 3 grades under development, as well as to provide high quality exposed steel for automotive body and closure applications. The Company's previously held 50 percent equity interest of $3 million was recorded at fair market value resulting in a net gain of approximately $3 million which has been recognized in the earnings from investees line in the consolidated statement of operations. Goodwill of approximately $3 million was recognized and is included as a component of other noncurrent assets in the Company's consolidated balance sheet. The fair value of the DESCO acquisition was measured using both cost and market approaches, Level 2 inputs, in accordance with ASC No. 820, Fair Value Measurement. Transaction costs associated with the acquisition were insignificant. The amount of revenue recognized in the consolidated statement of operations as a result of the acquisition was not significant for the periods presented.

5. Intangible Assets

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

(In millions)	Useful Lives	As of June 30, 2016 Gross Carrying Amount	Accumulated Amortization	Net Amount	As of December 31, 2015 Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	22-23 Years	$132	$ 55	$ 77	$132	$ 52	$ 80
Other	2-20 Years	17	9	8	17	8	9
Total amortizable intangible assets		$149	$ 64	$ 85	$149	$ 60	$ 89

The carrying amount of acquired water rights with indefinite lives as of June 30, 2016 and December 31, 2015 totaled $75 million. The water rights are tested for impairment annually in the third quarter, or whenever events or circumstances indicate the carrying value may not be recoverable. U. S. Steel performed a quantitative impairment evaluation of its water rights for 2015, which indicated they were not impaired.

Identifiable intangible assets with finite lives are reviewed for impairment whenever events or circumstances indicate the carrying values may not be recoverable. During the fourth quarter of 2015, due to a significant decline in energy prices and high levels of tubular imports, U. S. Steel completed a review of certain of its identifiable intangible assets with finite lives, primarily customer relationships with a carrying value of $80 million, and determined the assets were not impaired.

Amortization expense was $2 million in the three months ended June 30, 2016 and $2 million in the three months ended June 30, 2015. Amortization expense was $4 million in the six months ended June 30, 2016 and $4 million in the six months ended June 30, 2015. The estimated future amortization expense of identifiable intangible assets during the next five years is $3 million for the remaining portion of 2016 and $7 million each year from 2017 to 2020.

6. Pensions and Other Benefits

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

	Pension Benefits		Other Benefits	
(In millions)	2016	2015	2016	2015
Service cost	$13	$27	$5	$6
Interest cost	65	65	24	25
Expected return on plan assets	(105)	(111)	(38)	(39)
Amortization of prior service cost	3	5	7	(1)
Amortization of actuarial net loss	32	64	1	1
Net periodic benefit cost (income), excluding below	8	50	(1)	(8)
Multiemployer plans	15	16	—	—
Settlement, termination and curtailment losses	3	2	—	—
Net periodic benefit cost (income)	$26	$68	$(1)	$(8)

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

	Pension Benefits		Other Benefits	
(In millions)	2016	2015	2016	2015
Service cost	$26	$53	$10	$11
Interest cost	130	131	49	49
Expected return on plan assets	(210)	(221)	(75)	(77)
Amortization of prior service cost	6	9	13	(3)
Amortization of actuarial net loss	64	128	1	3
Net periodic benefit cost (income), excluding below	16	100	(2)	(17)
Multiemployer plans	32	34	—	—
Settlement, termination and curtailment losses	3	5	—	—
Net periodic benefit cost (income)	$51	$139	$(2)	$(17)

Settlements

During the first six months of 2016 and 2015, the non-qualified pension plan incurred settlement charges of approximately $3 million and $5 million respectively, due to lump sum payments for certain individuals.

Employer Contributions

During the first six months of 2016, U. S. Steel made cash payments of $32 million to the Steelworkers' Pension Trust and $6 million of pension payments not funded by trusts.

During the first six months of 2016, cash payments of $31 million were made for other postretirement benefit payments not funded by trusts.

Company contributions to defined contribution plans totaled $11 million in both of the three months ended June 30, 2016 and 2015, respectively. Company contributions to defined contribution plans totaled $22 million and $21 million for the six months ended June 30, 2016 and 2015, respectively.

Non-retirement postemployment benefits
U. S. Steel incurred a favorable adjustment associated with a change in estimate that resulted in a benefit of approximately $17 million and $2 million for the three and six months ended June 30, 2016, respectively, compared to costs of $25 million and $40 million for the three and six months ended June 30, 2015, respectively, related to employee costs for supplemental unemployment benefits and the continuation of health care benefits and life insurance coverage for employees associated with the temporary idling of certain facilities and reduced production at others. Payments for these benefits during the three and six months ended June 30, 2016 were $21 million and $40 million, respectively. Payments for these benefits during the three and six months ended June 30, 2015 were $13 million and $14 million, respectively.

Pension Funding
In July 2016, U. S. Steel's Board of Directors authorized voluntary contributions to the trust for our main defined benefit pension plan of up to $100 million over the next twelve months.

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

7. Net Interest and Other Financial Costs
Net interest and other financial costs includes interest expense (net of capitalized interest), interest income, financing costs, derivatives gains and losses and foreign currency remeasurement gains and losses. Foreign currency gains and losses are primarily a result of foreign currency denominated assets and liabilities that require remeasurement and the impacts of euro-U.S. dollar derivatives activity. During the three months ended June 30, 2016 and 2015, net foreign currency gains of $6 million and $2 million respectively, were recorded in other financial costs. During the six months ended June 30, 2016 and 2015, net foreign currency losses of $2 million and gains of $3 million respectively, were recorded in other financial costs. Additionally, during the three and six months ended June 30, 2016, a net loss on debt extinguishment was recognized of $24 million and $22 million, respectively.
See Note 12 for additional information on U. S. Steel’s use of derivatives to mitigate its foreign currency exchange rate exposure. See Note 13 for further details on U. S. Steel's redemption of its senior debt.

8. Stock-Based Compensation Plans

U. S. Steel has outstanding stock-based compensation awards that were granted by the Compensation & Organization Committee of the Board of Directors (the Committee) under the 2005 Stock Incentive Plan (the 2005 Plan) and the 2016 Omnibus Incentive Compensation Plan (the Omnibus Plan), which is more fully described in Note 14 of the United States Steel Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and the 2016 Proxy Statement respectively. On April 26, 2016, the Company's stockholders approved the Omnibus Plan and authorized the Company to issue up to 7,200,000 shares of U. S. Steel common stock under the Omnibus Plan. While the awards that were previously granted under the 2005 Plan remain outstanding, all future awards will be granted under the Omnibus Plan. As of June 30, 2016, 4,886,835 shares were available for future grants under the Omnibus Plan.

Recent grants of stock-based compensation consist of stock options, restricted stock units, and total shareholder return (TSR) performance awards. Stock options are generally issued at the market price of the underlying stock on the date of the grant. Upon exercise of stock options, shares of U. S. Steel common stock are issued from treasury stock. The following table is a general summary of the awards made under the 2005 Plan and the Omnibus Plan.

Grant Details	2016 Shares[a]	2016 Fair Value[b]	2015 Shares[a]	2015 Fair Value[b]
Stock Options	1,333,210	$ 6.24	1,638,540	$ 10.02
Restricted Stock Units	1,117,495	$ 14.27	794,370	$ 24.71
Performance Awards:[c]				
TSR	308,130	$ 10.02	273,560	$ 24.95

[a] The share amounts shown in this table do not reflect an adjustment for estimated forfeitures.
[b] Represents the per share weighted-average for all grants during the period.
[c] The number of performance awards shown represents the target value of the award.

U. S. Steel recognized pretax stock-based compensation expense in the amount of $5 million and $12 million in the three month periods ended June 30, 2016 and 2015, respectively, and $11 million and $23 million in the first six months of 2016 and 2015, respectively.

As of June 30, 2016, total future compensation expense related to nonvested stock-based compensation arrangements was $38 million, and the weighted average period over which this expense is expected to be recognized is approximately 1 year.

Compensation expense for stock options is recorded over the vesting period based on the fair value on the date of grant, as calculated by U. S. Steel using the Black-Scholes model and the assumptions listed below. The stock options vest ratably over a three-year service period and have a term of ten years.

Black-Scholes Assumptions[a]	2016 Grants	2015 Grants
Grant date price per share of option award	$14.78	$24.74
Exercise price per share of option award	$14.78	$24.74
Expected annual dividends per share, at grant date	$0.20	$0.20
Expected life in years	5.0	5.0
Expected volatility	53 %	47 %
Risk-free interest rate	1.463 %	1.639 %
Grant date fair value per share of unvested option awards as calculated from above	$6.24	$10.02

(a) The assumptions represent a weighted average of all grants during the period.

The expected annual dividends per share are based on the latest annualized dividend rate at the date of grant; the expected life in years is determined primarily from historical stock option exercise data; the expected volatility is based on the historical volatility of U. S. Steel stock; and the risk-free interest rate is based on the U.S. Treasury strip rate for the expected life of the option.

Restricted stock units generally vest ratably over three years. The fair value of the restricted stock units is the average market price of the underlying common stock on the date of the grant.

TSR performance awards vest at the end of a three-year performance period as a function of U. S. Steel's total shareholder return compared to the total shareholder return of a group of peer companies over the three-year performance period. TSR performance awards can vest at between zero and 200 percent of the target award. The fair value of the TSR performance awards is calculated using a Monte-Carlo simulation.

9. Income Taxes

Tax provision

For the six months ended June 30, 2016 and 2015, we recorded a tax provision of $7 million on our pretax loss of $379 million and a tax benefit of $360 million on our pretax loss of $696 million, respectively. Due to the full valuation allowance on our domestic deferred tax assets in 2016, the tax provision does not reflect any benefit for domestic pretax losses. For 2015, the tax provision reflects a benefit for percentage depletion in excess of cost depletion for iron ore that we produce and consume or sell. Included in the tax provision is a net benefit of $31 million relating to the adjustment of certain tax reserves in the first six months of 2015.

The tax provision for the first six months of 2016 is based on an estimated annual effective rate, which requires management to make its best estimate of annual pretax income or loss. Due to the full valuation allowance on our domestic deferred tax assets, the tax provision does not reflect any benefit for domestic pretax losses.

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 2016 pretax results for U.S. and foreign income or loss vary from estimates applied herein, the actual tax provision or benefit recognized in 2016 could be materially different from the forecasted amount used to estimate the tax provision for the six months ended June 30, 2016.

Deferred taxes

Each quarter U. S. Steel analyzes the likelihood that our deferred tax assets will be realized. A valuation allowance is recorded if, based on the weight of all available positive and negative evidence, it is more likely than not that some portion, or all, of a deferred tax asset may not be realized. At December 31, 2015, the Company determined that a valuation allowance of $804 million was required for the Company's domestic deferred tax assets.

At June 30, 2016, U.S. Steel reviewed all available positive and negative evidence and determined that it is more likely than not that all of its net domestic deferred tax assets may not be realized. As a result, an incremental valuation allowance of $54 million was recorded against the increase in the net domestic deferred tax asset (excluding a deferred tax liability related to an asset with an indefinite life).

U.S. Steel will continue to monitor the realizability of its deferred tax assets on a quarterly basis. In the future, if we determine that realization is more likely than not for deferred tax assets with a valuation allowance, the related valuation allowance will be reduced, and we will record a non-cash benefit to earnings.

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 in Accounting Standards Codification (ASC) Topic 740 on income taxes. The total amount of gross unrecognized tax benefits was $75 million at June 30, 2016 and $74 million at December 31, 2015. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was $10 million as of June 30, 2016 and $12 million as of December 31, 2015.

U. S. Steel records interest related to uncertain tax positions as a part of net interest and other financial costs in the Consolidated Statement of Operations. Any penalties are recognized as part of selling, general and administrative expenses. As of June 30, 2016 and December 31, 2015, U. S. Steel had accrued liabilities of $5 million and $1 million, respectively, for interest and penalties related to uncertain tax positions.

10. Earnings and Dividends Per Common Share

Earnings (Loss) Per Share Attributable to United States Steel Corporation Stockholders

Basic earnings (loss) per common share is based on the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per common share assumes the exercise of stock options, the vesting of restricted stock units and performance awards and the conversion of convertible notes, provided in each case the effect is dilutive. The “treasury stock” method was used to calculate the dilutive effect of the Senior Convertible Notes due in 2019 (2019 Senior Convertible Notes) while they were outstanding due to our intent and policy at the time of issuance to settle the principal amount of the 2019 Senior Convertible Notes in cash if they were converted (as described in Note 16 to the Annual Report on Form 10-K, the 2019 Senior Convertible Notes were redeemed in the fourth quarter of 2015).

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

(Dollars in millions, except per share amounts)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Loss attributable to United States Steel Corporation stockholders	$(46)	$(261)	$(386)	$(336)
Weighted-average shares outstanding (in thousands):				
Basic	146,582	145,962	146,492	145,848
Effect of stock options, restricted stock units and performance awards	—	—	—	—
Adjusted weighted-average shares outstanding, diluted	146,582	145,962	146,492	145,848
Basic loss per common share	$(0.32)	$(1.79)	$(2.64)	$(2.31)
Diluted loss per common share	$(0.32)	$(1.79)	$(2.64)	$(2.31)

The following table summarizes the securities that were antidilutive, and therefore, were not included in the computations of diluted earnings (loss) per common share:

(In thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Securities granted under the 2005 Stock Incentive Plan, as amended	10,126	9,139	10,126	9,139

Dividends Paid Per Share

The dividend for each of the first and second quarters of 2016 and 2015 was five cents per common share.

11. Inventories

Inventories are carried at the lower of cost or market. The first-in, first-out method is the predominant method of inventory costing in Europe. The last-in, first-out (LIFO) method is the predominant method of inventory costing in the United States. At June 30, 2016 and December 31, 2015, the LIFO method accounted for 79 percent and 80 percent of total inventory values, respectively.

(In millions)	June 30, 2016	December 31, 2015
Raw materials	$ 440	$ 766
Semi-finished products	767	841
Finished products	407	392
Supplies and sundry items	61	75
Total	$ 1,675	$ 2,074

Current acquisition costs were estimated to exceed the above inventory values by $524 million at June 30, 2016 and $900 million at December 31, 2015. As a result of the liquidation of LIFO inventories, cost of sales increased and earnings (loss) before interest and income taxes decreased by $29 million in the three months ended June 30, 2016. As a result of the liquidation of LIFO inventories, cost of sales decreased and earnings (loss) before interest and income taxes increased by $1 million in the three months ended June 30, 2015. Cost of sales increased and earnings (loss) before interest and income taxes decreased by $75 million and $3 million in the six months ended June 30, 2016 and June 30, 2015, respectively, as a result of liquidation of LIFO inventories.

Inventory includes $56 million and $64 million of property held for residential or commercial development as of June 30, 2016 and December 31, 2015, respectively.

12. Derivative Instruments

U. S. Steel is exposed to foreign currency exchange rate risks as a result of our European operations. USSE’s revenues are primarily in euros and costs are primarily in U.S. dollars and euros. In addition, foreign cash requirements have been, and in the future may be, funded by intercompany loans, creating 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 period.

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 currency requirements and exposure to foreign currency exchange rate fluctuations. Derivative instruments are required to be recognized at fair value in the Consolidated 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 Consolidated Statements of Operations.

As of June 30, 2016, U. S. Steel held euro forward sales contracts with a total notional value of approximately $214 million. We mitigate the risk of concentration of counterparty credit risk by purchasing our forward sales contracts from several counterparties.

Additionally, U. S. Steel uses 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. During 2016 and 2015, the forward physical purchase contracts for natural gas and nonferrous metals qualified for the normal purchases and normal sales exemption described in 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 consolidated financial statements as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015:

(In millions)	Balance Sheet Location	Fair Value June 30, 2016	Fair Value December 31, 2015
Foreign exchange forward contracts	Accounts receivable	$ 2	$ 4
Foreign exchange forward contracts	Accounts payable	$ 2	$ 1

(In millions)	Statement of Operations Location	Amount of Gain (Loss) Three Months Ended June 30, 2016	Amount of Gain (Loss) Six Months Ended June 30, 2016
Foreign exchange forward contracts	Other financial income/ costs	$ (6)	$ 4

(In millions)	Statement of Operations Location	Amount of Gain (Loss) Three Months Ended June 30, 2015	Amount of Gain (Loss) Six Months Ended June 30, 2015
Foreign exchange forward contracts	Other financial income/ costs	$ (11)	$ 32

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.

13. Debt

(In millions)	Interest Rates %	Maturity	June 30, 2016	December 31, 2015
2037 Senior Notes	6.65	2037	$ 350	$ 350
2022 Senior Notes	7.50	2022	400	400
2021 Senior Notes	6.875	2021	251	275
2021 Senior Secured Notes	8.375	2021	980	—
2020 Senior Notes	7.375	2020	450	600
2018 Senior Notes	7.00	2018	161	500
2017 Senior Notes	6.05	2017	—	450
Environmental Revenue Bonds	5.50 - 6.88	2016 - 2042	490	490
Recovery Zone Facility Bonds	6.75	2040	70	70
Fairfield Caster Lease		2022	29	30
Other capital leases and all other obligations		2019	1	1
Third Amended and Restated Credit Agreement	Variable	2020	—	—
USSK Revolver	Variable	2019	—	—
USSK credit facilities	Variable	2016 - 2018	—	—
Total Debt			3,182	3,166
Less unamortized discount and debt issuance costs			3	5
Less deferred issuance costs			39	23