UNITED STATES STEEL CORP
Form 10-Q
October 30, 2007

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 September 30, 2007

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

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

(412) 433-1121

(Registrant s telephone number,

including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer _√_. Accelerated filer __ Non-accelerated filer __
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes__ No_√_

Common stock outstanding at October 29, 2007 118,118,071 shares

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements:

UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(Dollars in millions, except per share amounts)	**Third Quarter Ended September 30, 2007**	**Third Quarter Ended September 30, 2006**	**Nine Months Ended September 30, 2007**	**Nine Months Ended September 30, 2006**
Net sales:				
Net sales	**$ 4,058**	$ 3,865	**$ 11,506**	$ 11,243
Net sales to related parties	**296**	241	**832**	698
Total	**4,354**	4,106	**12,338**	11,941
Operating expenses (income):				
Cost of sales (excludes items shown below)	**3,749**	3,308	**10,523**	9,745
Selling, general and administrative expenses	**134**	144	**411**	458
Depreciation, depletion and amortization *(Note 8)*	**124**	113	**353**	339
Income from investees	**(7)**	(19)	**(19)**	(39)
Net gains on disposal of assets	**(7)**	-	**(20)**	(2)
Other loss (income), net	**1**	(1)	**(7)**	(4)
Total	**3,994**	3,545	**11,241**	10,497
Income from operations	**360**	561	**1,097**	1,444
Net interest and other financial costs *(Note 9)*	**22**	7	**61**	37
Income before income taxes and minority interests	**338**	554	**1,036**	1,407
Income tax provision *(Note 10)*	**68**	136	**187**	317
Minority interests	**1**	1	**5**	13
Net income	**269**	417	**844**	1,077
Dividends on preferred stock	**-**	-	**-**	(8)
Net income applicable to common stock	**$ 269**	$ 417	**$ 844**	$ 1,069
Income per common share *(Note 11)*:				
Net income per share:				
- Basic	**$ 2.28**	$ 3.44	**$ 7.15**	$ 9.39
- Diluted	**$ 2.27**	$ 3.42	**$ 7.10**	$ 8.67
Weighted average shares, in thousands:				
- Basic	**118,086**	121,270	**118,183**	113,764
- Diluted	**118,755**	121,964	**118,896**	124,226
Dividends paid per share	**$ 0.20**	$ 0.15	**$ 0.60**	$ 0.40

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

UNITED STATES STEEL CORPORATION

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,403**	$ 1,422
Receivables, less allowance of $43 and $58 *(Note 15)*	**2,168**	1,681
Receivables from related parties *(Note 17)*	**141**	118
Inventories *(Note 12)*	**1,826**	1,604
Deferred income tax benefits *(Note 10)*	**318**	362
Other current assets	**29**	9
Total current assets	**5,885**	5,196
Investments and long-term receivables, less allowance of $6 and $6	**315**	336
Property, plant and equipment - net *(Note 8)*	**4,809**	4,429
Prepaid pensions	**531**	330
Deferred income tax benefits *(Note 10)*	**9**	103
Intangibles - net *(Note 4 and Note 8)*	**231**	-
Goodwill *(Note 4)*	**1,155**	-
Assets held for sale *(Note 5)*	**190**	-
Other noncurrent assets	**187**	192
Total assets	**$ 13,312**	$ 10,586
Liabilities		
Current liabilities:		
Accounts payable	**$ 1,577**	$ 1,254
Accounts payable to related parties *(Note 17)*	**79**	59
Bank checks outstanding	**127**	66
Payroll and benefits payable	**1,100**	1,028
Accrued taxes *(Note 10)*	**145**	182
Accrued interest	**68**	31
Short-term debt and current maturities of long-term debt *(Note 13)*	**68**	82
Total current liabilities	**3,164**	2,702
Long-term debt *(Note 13)*	**2,103**	943
Employee benefits	**2,111**	2,174
Deferred income tax liabilities *(Note 10)*	**128**	-
Deferred credits and other liabilities	**420**	364
Total liabilities	**7,926**	6,183
Contingencies and commitments *(Note 18)*		
Minority interests	**34**	38
Stockholders Equity:		
Common stock (123,785,911 and 123,785,911 shares issued) *(Note 11)*	**124**	124
Treasury stock, at cost (5,622,307 and 5,240,810 shares)	**(373)**	(317)
Additional paid-in capital	**2,951**	2,942
Retained earnings	**3,672**	2,902
Accumulated other comprehensive loss *(Note 16)*	**(1,022)**	(1,286)

Total stockholders equity		**5,352**		4,365
Total liabilities and stockholders equity	**$**	**13,312**	$	10,586

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

UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Dollars in millions)	**Nine Months Ended September 30, 2007**	**2006**
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net income	**$ 844**	$ 1,077
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	**353**	339
Provision for doubtful accounts	**(14)**	2
Pensions and other postretirement benefits	**(182)**	(199)
Minority interests	**5**	13
Deferred income taxes	**113**	124
Net gains on disposal of assets	**(20)**	(2)
Distributions received, net of equity investees income	**17**	(2)
Changes in:		
Current receivables - sold	**40**	-
- repurchased	**(40)**	-
- operating turnover	**(300)**	(335)
Inventories	**243**	(180)
Current accounts payable and accrued expenses	**216**	211
Foreign currency translation	**125**	57
All other, net	**(46)**	(70)
Net cash provided by operating activities	**1,354**	1,035
Investing activities:		
Capital expenditures	**(460)**	(397)
Acquisition of Lone Star Technologies, Inc.	**(1,990)**	-
Disposal of assets	**27**	6
Restricted cash, net	**4**	6
Investments, net	**(2)**	-
Net cash used in investing activities	**(2,421)**	(385)
Financing activities:		
Issuance of long-term debt, net of financing costs	**1,583**	-
Repayment of long-term debt	**(458)**	(277)
Common stock issued	**15**	16
Common stock repurchased	**(87)**	(396)
Distribution to minority interest owners	**(9)**	(15)
Dividends paid	**(71)**	(54)
Change in bank checks outstanding	**61**	5
Excess tax benefits from stock-based compensation	**8**	2
Net cash provided by (used in) financing activities	**1,042**	(719)
Effect of exchange rate changes on cash	**6**	**-**
Net decrease in cash and cash equivalents	**(19)**	(69)

Cash and cash equivalents at beginning of year	**1,422**	1,479
Cash and cash equivalents at end of period	**$ 1,403**	$ 1,410

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

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

United States Steel Corporation (U. S. Steel) produces and sells steel mill products, including flat-rolled and tubular, in North America and Central Europe. Operations in North America also include iron ore mining and processing to supply steel producing units; real estate management and development; and transportation services.

The year-end consolidated balance sheet data was derived from audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. The other information in these financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Additional information is contained in the United States Steel Corporation Annual Report on Form 10-K for the year ended December 31, 2006.

2. New Accounting Standards

In June 2007, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) issue number 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 requires that tax benefits generated by dividends paid during the vesting period on certain equity-classified, share-based compensation awards be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF 06-11 is effective as of January 1, 2008. U. S. Steel expects the effect of adopting EITF 06-11 to be immaterial to its financial statements.

In March 2007, the FASB ratified EITF issue number 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements (EITF 06-10). EITF 06-10 requires an employer to recognize a liability for the postretirement benefit provided by a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board Opinion No. 12, Omnibus Opinion 1967 , if the employer has agreed to maintain a life insurance policy during the employee s retirement or provide the employee with a death benefit. EITF 06-10 also stipulates that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. EITF 06-10 is effective as of January 1, 2008. U. S. Steel has collateral assignment split-dollar life insurance arrangements within the scope of EITF 06-10 for a small number of employees and we are in the process of evaluating the financial impact of adopting EITF 06-10.

In February 2007, the FASB issued Statement of Financial Accounting Standards (FAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (FAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. FAS 159 is effective as of January 1, 2008. U. S. Steel does not expect any material financial statement implications relating to the adoption of this Statement.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Statement applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. This Statement is effective as of January 1, 2008. U. S. Steel does not expect any material financial statement implications relating to the adoption of this Statement.

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 Tubular segment includes seamless and welded tubular products, the latter of which are primarily produced by facilities acquired from Lone Star Technologies, Inc. (Lone Star) on June 14, 2007, as discussed in Note 4. The results of several operating segments that do not constitute reportable segments are combined and disclosed in the Other Businesses category.

The chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being income from operations. Income from operations for reportable segments and Other Businesses does not include net interest and other financial costs, the income tax provision, 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 and the transfer value for domestic iron ore pellets from Other Businesses to Flat-rolled are set at the beginning of each year based on expected total production costs and may be adjusted quarterly if actual production costs warrant. The transfer value for hot rolled bands to the welded tubular facilities acquired from Lone Star and 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 third quarter of 2007 and 2006 are:

(In millions) Third Quarter 2007	Customer Sales	Intersegment Sales	Net Sales	Income from investees	Income from operations
Flat-rolled	**$ 2,439**	**$ 132**	**$ 2,571**	**$ 6**	**$ 170**
USSE	**1,167**	**-**	**1,167**	**1**	**152**
Tubular	**637**	**-**	**637**	**-**	**74**
Total reportable segments	**4,243**	**132**	**4,375**	**7**	**396**
Other Businesses	**111**	**305**	**416**	**-**	**37**
Reconciling Items	**-**	**(437)**	**(437)**	**-**	**(73)**
Total	**$ 4,354**	**$ -**	**$ 4,354**	**$ 7**	**$ 360**
Third Quarter 2006					
Flat-rolled	$ 2,545	$ 108	$ 2,653	$ 18	$ 230
USSE	1,036	-	1,036	1	219
Tubular	455	-	455	-	164
Total reportable segments	4,036	108	4,144	19	613
Other Businesses	70	289	359	-	39
Reconciling Items	-	(397)	(397)	-	(91)
Total	$ 4,106	$ -	$ 4,106	$ 19	$ 561

The results of segment operations for the first nine months of 2007 and 2006 are:

(In millions) First Nine Months 2007	Customer Sales	Intersegment Sales	Net Sales	Income from investees	Income from operations
Flat-rolled	**$ 7,137**	**$ 301**	**$ 7,438**	**$ 16**	**$ 337**
USSE	**3,566**	**-**	**3,566**	**1**	**602**
Tubular	**1,398**	**-**	**1,398**	**3**	**273**
Total reportable segments	**12,101**	**301**	**12,402**	**20**	**1,212**
Other Businesses	**237**	**762**	**999**	**(1)**	**40**
Reconciling Items	**-**	**(1,063)**	**(1,063)**	**-**	**(155)**
Total	**$ 12,338**	**$ -**	**$ 12,338**	**$ 19**	**$ 1,097**
First Nine Months 2006					
Flat-rolled	$ 7,452	$ 349	$ 7,801	$ 38	$ 569
USSE	2,893	9	2,902	1	532
Tubular	1,384	-	1,384	-	487
Total reportable segments	11,729	358	12,087	39	1,588
Other Businesses	212	765	977	-	72
Reconciling Items	-	(1,123)	(1,123)	-	(216)
Total	$ 11,941	$ -	$ 11,941	$ 39	$ 1,444

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

(In millions)	Third Quarter Ended September 30, 2007	Third Quarter Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Items not allocated to segments:				
Retiree benefit expenses	**$ (46)**	$ (70)	**$ (128)**	$ (190)
Other items not allocated to segments:				
Tubular inventory transition effects [a]	**(27)**	-	**(27)**	-
Workforce reduction charges (Note 7)	**-**	(21)	**-**	(21)
Asset impairment (Note 8)	**-**	-	**-**	(5)
Total other items not allocated to segments	**(27)**	(21)	**(27)**	(26)
Total reconciling items	**$ (73)**	$ (91)	**$ (155)**	$ (216)

[a] Charge reflecting the effects of conforming certain inventories acquired from Lone Star to our unified business model and the impact of selling acquired inventory, which had been recorded at fair value.

4. Acquisitions

Stelco Inc.

On August 26, 2007, U. S. Steel and Stelco Inc., (Stelco) announced that they had entered into a definitive agreement under which U. S. Steel would acquire Stelco for $38.50 (Canadian) per share in cash.

Stelco, one of Canada s largest steel producers, operates two integrated steel plants in Ontario, Canada. Stelco produces a variety of steel products for customers in the automotive, steel service center, and pipe and tubular industries within North America.

The transaction, valued at approximately $1.2 billion for the stock purchase and approximately $750 million for the retirement of debt, is expected to close by the end of October, 2007. Stelco s shareholders have approved the transaction, the required regulatory approvals have been obtained, and in accordance with the requirements for a plan of arrangement under Canadian law, we are awaiting the approval of the Ontario Superior Court of Justice.

In connection with the acquisition, U. S. Steel has reached agreement with the Canadian and Ontario governments that, among other things, provide for U. S. Steel to guarantee Stelco s pension funding obligations under a pension agreement entered into by Stelco and the Province of Ontario, and to make a voluntary contribution of $32.5 million (Canadian) to Stelco s main pension plans at closing. In addition, we committed to the Canadian government to make capital investments over the next five years of at least $200 million (Canadian).

Lone Star Technologies, Inc.

On June 14, 2007, U. S. Steel acquired all of the outstanding shares of Lone Star for $2,050 million ($67.50 per share).

The results of operations for Lone Star are included in U. S. Steel s consolidated statement of operations as of the date of the acquisition. Lone Star is being reported as part of U. S. Steel s Tubular segment.

Lone Star manufactures welded oil country tubular goods (OCTG), standard and line pipe and tubular couplings, and is a provider of finishing services. The acquisition has strengthened U. S. Steel s position as a premier supplier of tubular products for the energy sector. It is also anticipated that it will generate annual, sustainable synergies, with the full impact to be realized by the end of 2008. The synergies are anticipated through steel sourcing and processing, as well as through overhead cost reductions and the leveraging of best practices.

The total purchase price of $1,990 million reflects the $2,050 million share purchase, net of cash acquired of $71 million, and including direct acquisition costs of $11 million. The acquisition was recorded by allocating the cost of the assets acquired, including intangible assets, and liabilities assumed, based on their estimated fair values at the date of acquisition. The excess of the cost of the acquisition over the net amounts assigned to the fair value of the assets acquired and the liabilities assumed is recorded as goodwill. The amount allocated to goodwill reflects the benefit U. S. Steel expects to realize from expanding our Tubular operations and from running our Flat-rolled segment at higher operating rates. Approximately $330 million of goodwill has been allocated to Flat-rolled. The balance of the goodwill has been allocated to the OCTG and standard and line pipe, tubular coupling, and finishing services businesses acquired from Lone Star.

The acquisition has been accounted for in accordance with FAS 141, Business Combinations. The following table presents the preliminary allocation of the aggregate purchase price based on estimated fair values:

		(In millions)
Assets Acquired:		
Receivables	$	129
Inventories		429
Other current assets		12
Property, plant & equipment		361
Identifiable intangible assets		232
Goodwill		1,155
Other noncurrent assets		50
Total Assets		2,368
Liabilities Assumed:		
Accounts payable		151
Payroll and benefits payable		30
Other current liabilities		21
Employee benefits		35
Deferred income tax liabilities		132
Other noncurrent liabilities		9
Total Liabilities		378
Purchase price net of cash acquired	$	1,990

In evaluating the fair value of inventory acquired, it was determined that the preliminary allocation of the purchase price to inventory, as presented in the quarterly report on Form 10-Q for the period ended June 30, 2007, should be reduced by approximately $120 million, as a result of determining that the quality of the acquired inventory was not satisfactory for it to be used for its intended purpose. The amount presented above reflects the fair value of the inventory acquired. U. S. Steel is continuing to conform accounting policies and procedures and evaluate assets and liabilities assumed. The results of this process may lead to further adjustments to the purchase price allocation presented above (See Note 18).

In the third quarter 2007, U. S. Steel management completed an assessment of the electric arc furnaces and rolling mill facilities that had been used by Lone Star to produce hot rolled bands. As a result of this assessment, operations at the electric arc furnaces and the rolling mill facilities have been permanently discontinued. This resulted in a decrease in acquired Property, plant & equipment of approximately $100 million from the preliminary allocation presented in the quarterly report on Form 10-Q for the period ended June 30, 2007. The employment of approximately 200 employees was terminated in connection with these activities.

The adjustments discussed above also resulted in a decrease in Deferred income tax liabilities of approximately $90 million and an increase in Goodwill of approximately $130 million from the preliminary allocation presented in the quarterly report on Form 10-Q for the period ended June 30, 2007.

Goodwill is not deductible for tax purposes. The Identifiable intangible assets, principally water rights and customer relationships, are not deductible for tax purposes. Customer relationships of approximately $130 million will be subject to amortization for book purposes over a period of approximately 20 years. It was determined that water rights of approximately $75 million have an indefinite life. Goodwill and Intangible assets with an indefinite life will be subject to impairment testing on an annual basis in accordance with FAS 142, Goodwill and Other Intangible Assets. Other identifiable intangible assets will be amortized over a weighted-average period of approximately 13 years.

The following unaudited pro forma information for U. S. Steel includes the results of the Lone Star acquisition as if it had been consummated at the beginning of the periods presented. The unaudited pro forma data is based on historical information and does not include anticipated cost savings or other effects of the integration of Lone Star. Accordingly, the unaudited pro forma data does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations. Pro forma adjustments are tax-effected at the Company s statutory tax rate.

	Third Quarter Ended September 30,		**Nine Months Ended September 30,**	
(In millions, except per share amounts)	**2007**	**2006**	**2007**	**2006**
Net sales	**$ 4,354**	$ 4,435	**$ 12,915**	$ 12,963
Net income	**286**	422	**845**	1,132
Net income per share:				
- Basic	**$ 2.42**	$ 3.48	**$ 7.15**	$ 9.95
- Diluted	**$ 2.41**	$ 3.46	**$ 7.10**	$ 9.11

5. Divestiture

On September 26, 2007, U. S. Steel and Canadian National Railway Company (CN) announced that they had entered into an agreement under which CN will acquire the majority of the operating assets of Elgin, Joliet and Eastern Railway Company (EJ&E) for $300 million. Under the agreement, U. S. Steel will retain railroad assets, equipment, and employees that support the Gary Works complex in northwest Indiana. The transaction is subject to regulatory approval by the U.S. Surface Transportation Board, and closing is anticipated in mid-2008. As of September 30, 2007, the assets of EJ&E that are to be sold, which consist primarily of property, plant and equipment, have been classified as held for sale in accordance with FAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets.

6. Stock-Based Compensation Plans

U. S. Steel has outstanding stock-based compensation awards that were granted under several stock-based employee compensation plans and are more fully described in Note 12 of the United States Steel Corporation 2006 Annual Report on Form 10-K. Effective January 1, 2006, U. S. Steel adopted the fair value recognition provisions of FAS No. 123R, Share-Based Payments, (FAS 123(R)). FAS 123(R) requires that the cost resulting from all stock-based payments be recognized based on the grant date fair value of the award. U. S. Steel recognized stock-based compensation expense in the amount of $3 million and $7 million in the third quarter 2006 and 2007, respectively, and $11 million and $16 million in the first nine months 2006 and 2007, respectively.

The Compensation & Organization Committee of the Board of Directors (the Compensation Committee) has made grants of stock-based awards under a stockholder approved stock incentive plan (the Plan). Recent grants have consisted of stock options, restricted stock and performance stock awards. The following table is a general summary of the awards made under the Plan.

	2007 Grants[(a)]		**May 2006 Grant**	
Grant Details	**Shares[(b)]**	**Fair Value[(c)]**	**Shares[(b)]**	**Fair Value[(d)]**
Stock Options	**234,930**	**$ 44.55**	344,490	$ 27.05
Restricted Stock	**162,445**	**$ 108.68**	229,380	$ 65.40
Performance Shares[(e)]	**62,800**	**$ 139.74**	95,400	$ 63.74

(a) In addition to the annual grant made in May 2007, additional grants were made in July 2007 primarily as a result of the Lone Star acquisition.

(b) The share amounts shown in this table do not reflect an estimate for forfeitures.

(c) Weighted average per share amounts

(d) Per share amounts

(e) The number of Performance Shares shown represents the target value of the award.

In addition to the above grants, retention grants of restricted stock with a fair value of $4 million were awarded in July 2007, primarily as a result of the Lone Star acquisition. These grants vest at the end of three years.

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

Performance stock 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 returns of peer companies over the three-year performance period. Performance stock awards can vest at between zero and 200 percent of the target award. The fair value of the performance stock awards is calculated using a Monte-Carlo simulation.

As of September 30, 2007, total future compensation expense related to nonvested stock-based compensation arrangements was $43 million, and the weighted average period over which this cost is expected to be recognized is approximately 1.4 years.

In accordance with FAS 123(R), 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 option awards vest ratably over a three-year service period and have a term of ten years.

Black-Scholes Assumptions	2007 Grants	May 2006 Grant
Grant date price per share of option award	**$ 99.52 - 109.32**	$ 65.40
Expected annual dividends per share, at grant date	**$ 0.80**	$ 0.60
Expected life in years	**5**	5
Expected volatility	**43%**	43%
Risk-free interest rate	**4.5% - 4.6%**	4.8%
Grant date fair value per share of unvested option awards as calculated from above	**$ 40.76 - 44.90**	