

Edgar Filing: CIRCUIT RESEARCH LABS INC - Form SC 13D/A

CIRCUIT RESEARCH LABS INC

Form SC 13D/A

May 02, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

SCHEDULE 13D/A  
(RULE 13D-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT  
TO RULE 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO  
RULE 13D-2(a)

(AMENDMENT NO. 2)

CIRCUIT RESEARCH LABS, INC.  
(Name of Issuer)

COMMON STOCK, \$0.10 PAR VALUE  
(Title of Class of Securities)

172743205  
(CUSIP Number)

EDWIN SUMMERS  
VICE PRESIDENT AND GENERAL COUNSEL  
HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED  
8500 BALBOA BLVD.  
NORTHRIDGE, CALIFORNIA 91329  
(218) 893-8411  
(Name, Address and Telephone Number of Person  
Authorized to Receive Notices and Communications)

with a copy to:

JAMES E. O'BANNON  
JONES DAY  
2727 NORTH HARWOOD STREET  
DALLAS, TEXAS 75201  
(214) 220-3939

APRIL 30, 2003  
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box.

(continued on following pages)

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1 Name of Reporting Person  
Harman Acquisition Corp.

2 Check the Appropriate Box if a Member of a Group (a)   
(b)

3 SEC Use Only

4 Source of Funds  
00

5 Check Box if Disclosure of Legal Proceedings is Required Pursuant  
to Item 2(d) or 2(e)

6 Citizenship or Place of Organization  
Delaware

Number of Shares	7	Sole Voting Power 1,395,690(1)
Beneficially	8	Shared Voting Power 0
Owned by Each	9	Sole Dispositive Power 1,395,690(1)
Reporting Person With	10	Shared Dispositive Power 0

11 Aggregate Amount Beneficially Owned by Each Reporting Person  
1,395,690(1)

12 Check Box if the Aggregate Amount in Row (11) Excludes  
Certain Shares

13 Percent of Class Represented by Amount in Row (11)  
26.8%(2)

14 Type of Reporting Person  
CO

1 All shares of common stock, par value \$.10 per share ("Common Stock") of Circuit Research Labs, Inc., an Arizona corporation ("CRL"), covered by this statement may be acquired by Harman Acquisition Corp. ("HAC") upon exercise of a warrant issued to HAC as of May 31, 2000 (the "Warrant"). Prior to the exercise of the Warrant, HAC is not entitled to any rights as a stockholder of CRL.

2 Based on 3,806,846 shares outstanding at March 31, 2003 according to the Annual Report on Form 10-KSB filed by Circuit Research Labs, Inc. for the fiscal year ended December 31, 2002, plus 1,395,690 shares issuable upon exercise of the Warrant described in Item 6 below.

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-----  
 1 Name of Reporting Person  
 Harman International Industries, Incorporated  
 -----

2 Check the Appropriate Box if a Member of a Group (a)   
 (b)

3 SEC Use Only  
 -----

4 Source of Funds  
 00  
 -----

5 Check if Disclosure of Legal Proceedings is Required Pursuant  
 to Item 2(d) or 2(e)

6 Citizenship or Place of Organization  
 Delaware  
 -----

Number of Shares	7	Sole Voting Power	0
Beneficially	8	Shared Voting Power	1,395,690(1)
Owned by Each	9	Sole Dispositive Power	0
Reporting Person With	10	Shared Dispositive Power	1,395,690(1)

11 Aggregate Amount Beneficially Owned by Each Reporting Person  
 1,395,690(1)  
 -----

12 Check if the Aggregate Amount in Row (11) Excludes Certain Shares

13 Percent of Class Represented by Amount in Row (11)  
 26.8%(2)  
 -----

14 Type of Reporting Person  
 CO  
 -----

1 All shares of Common Stock covered by this statement may be acquired by HAC upon exercise of the Warrant described in Item 6 below. HAC is a wholly owned subsidiary of Harman International Industries, Incorporated ("Harman"). As such, Harman may be deemed to have shared voting and dispositive power with respect to the shares covered by this Schedule 13D.

2 Based on 3,806,846 shares outstanding at March 31, 2003 according to the Annual Report on Form 10-KSB filed by Circuit Research Labs, Inc. for the fiscal year ended December 31, 2002, plus 1,395,690 shares issuable upon exercise of the Warrant described in Item 6 below.

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This Amendment No. 2 (this "Amendment No. 2") amends the joint statement on Schedule 13D filed with the Securities and Exchange Commission (the "SEC") on March 13, 2002 (as previously amended, the "Schedule 13D") by Harman International Industries, Incorporated ("Harman") and its wholly owned subsidiary, Harman Acquisition Corp. ("HAC"), relating to the common stock, par value \$0.10 per share (the "Common Stock"), of Circuit Research Labs, Inc., an Arizona corporation ("CRL"), as amended by Amendment No. 1 to Schedule 13D filed with the SEC on March 31, 2003 (the "Amendment No. 1"). Capitalized terms used but not otherwise defined in this Amendment No. 2 have the meanings given to those terms in the Schedule 13D.

Items 4, 5, 6 and 7 of the Schedule 13D are hereby amended and restated in their entirety as follows:

### ITEM 4. PURPOSE OF TRANSACTION.

In connection with the sale by HAC of substantially all of the assets of HAC to CRL Systems, Inc. ("Systems"), CRL issued the Warrant to HAC. The beneficial ownership of Common Stock by Harman and HAC reported in this statement is based solely on the ownership of the Warrant (as defined below in Item 6). The Warrant will expire on May 31, 2003.

HAC has no present intent to exercise the Warrant.

Except for the Proposed Restructuring (as defined in Item 6) contemplated by the Amended Letter Agreement (as defined in Item 6) or as otherwise described in the response to Item 6, neither Harman nor HAC have formulated any plans or proposals which relate to or would result in: (i) acquisition or disposition of securities of CRL; (ii) an extraordinary corporate transaction involving CRL or any of its subsidiaries; (iii) a sale or transfer of a material amount of the assets of CRL or any of its subsidiaries; (iv) any change in the present board of directors or management of CRL; (v) any material change in CRL's capitalization or dividend policy; (vi) any other material change in CRL's business or corporate structure; (vii) any change in CRL's charter or bylaws or other instruments corresponding thereto or other action which may impede the acquisition of control of CRL by any person; (viii) causing a class of CRL's securities becoming deregistered or delisted; (ix) causing a class of CRL's equity securities to become eligible for termination of registration pursuant to Section 12(g)(4) of the Securities Exchange Act of 1934, as amended; or (x) an action similar to any of those enumerated above.

The response to Item 6 is incorporated herein by reference.

### ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

(a) As a result of HAC's ownership of the Warrant, HAC is deemed to beneficially own 1,395,690 shares of Common Stock or approximately 26.8% of the Common Stock that would be outstanding after giving effect to the exercise in full of the Warrant. Harman owns all of the outstanding capital stock of HAC, and as a result, Harman is deemed to also beneficially own these 1,395,690 shares of Common Stock or approximately 26.8% of the Common Stock that would be outstanding after giving effect to the exercise in full of the Warrant.

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(b) Under SEC regulations, HAC is deemed to have sole voting and dispositive power with respect to 1,395,690 shares of Common Stock as a result

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of its ownership of the Warrant. HAC is a wholly owned subsidiary of Harman. As such, under SEC regulations Harman may be deemed to also have shared voting and dispositive power with respect to 1,395,690 shares of Common Stock as a result of HAC's ownership of the Warrant.

- (c) None.
- (d) Not applicable.
- (e) Not applicable.

### ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.

On May 31, 2000, Systems and HAC entered into an Asset Sale Agreement (the "Asset Sale Agreement") pursuant to which Systems acquired substantially all of the assets of HAC (the "Transaction"). As consideration for the assets of HAC, HAC received \$1,500,000 in cash, a \$3.5 million short-term note (the "Tranche B Note"), a \$5 million long-term note (the "Tranche A Note" and, together with the Tranche B Note, the "Notes") and warrant to purchase 1,000,000 shares of Common Stock, exercisable for \$2.25 per share (the "Warrant").

The Warrant expires on May 31, 2003 and can be exercised either (i) by payment in cash, (ii) by reducing the amount of the unpaid principal on the Tranche A Note or the Tranche B Note or (iii) by any combination of (i) and (ii). The provisions of the Warrant also provide HAC with anti-dilution protection under certain circumstances, including for stock splits, stock dividends, combinations, reclassifications and issuances of Common Stock at prices below the current trading price or the exercise price of the Warrant. As a result of certain transactions effected by CRL subsequent to the issuance of the Warrant, the aggregate number of shares of Common Stock issuable upon exercise of the Warrant increased to 1,395,690 shares, and the exercise price per share decreased to \$1.6121 per share.

The provisions of the Warrant further provide HAC with certain rights to cause CRL to register the shares of Common Stock issuable to HAC upon exercise of the Warrant.

Under the terms of the Asset Purchase Agreement, Systems and HAC entered into an \$8,500,000 Credit Agreement (the "Credit Agreement") that governs the repayment of the Notes. In addition, CRL, Systems and HAC entered into a Guarantee and Collateral Agreement (the "Guarantee") whereby each of CRL and Systems pledged all of their respective assets, including the stock of Systems, as collateral for the repayment of the Notes. Among other things, the Guarantee provides that the cash proceeds received by CRL from any sale of debt or equity securities or sales of assets by CRL will be applied to pay amounts owed under the Notes.

Between May 31, 2000 and May 2, 2002, HAC and Systems agreed to several payment extensions on the Notes. On October 1, 2001, Systems and HAC entered into an amendment to the Credit Agreement under which both Notes were amended and restated (the "Amended Credit Agreement"). Under the Amended Credit Agreement, the Notes were converted to demand notes payable on the demand of HAC or if no demand is sooner made, on the dates and in the

amounts specified in the Amended Credit Agreement. Interest only payments remain payable from time to time for both Notes and are also due on demand. On May 1, 2002, Systems and HAC entered into a second amendment to the Credit

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Agreement under which both Notes were again amended and restated (the "Second Amendment to Credit Agreement"). Under the Second Amendment to Credit Agreement, the requirement for quarterly principal payments was removed and the maturity date of the Notes was extended to December 31, 2003.

On April 30, 2003, HAC, CRL and Systems, entered into a non-binding letter agreement (the "Amended Letter Agreement"), which amended and restated their non-binding letter agreement dated as of March 27, 2003. The Amended Letter Agreement sets forth the terms of a proposed restructuring (the "Proposed Restructuring") of the Notes and HAC's investment in CRL. The Amended Letter Agreement contemplates, among other things, that:

- (a) CRL will make a cash principal payment on the Notes in an amount not less than \$1,000,000;
- (b) HAC will exchange \$3.5 million in debt payable under the Notes plus the Warrant, for a number of shares of Common Stock such that HAC will own 19% of the then-outstanding shares of Common Stock of CRL at the time of issuance, determined on a fully diluted basis; and
- (c) CRL and HAC will consolidate amounts owed under the Notes into a single senior secured note (the "Amended Note") and amend the Credit Agreement to, among other things, (i) provide that accrued but unpaid interest on the Notes will be added to the principal amount due under the Amended Note, (ii) reduce the interest rate and (iii) amend the timing and amount of principal payments.

The Proposed Restructuring is subject to a number of conditions, including (a) CRL receiving \$1.5 million in new common equity investments prior to May 16, 2003, (b) the negotiation and execution of definitive agreements setting forth the terms of the Proposed Restructuring, and (c) the approval of the Boards of Directors of each of CRL and HAC.

HAC acquired the Warrant (and as a result, beneficial ownership of the Common Stock issuable upon exercise of the Warrant) as consideration received in the Transaction. HAC from time to time intends to review its investment in CRL, including in connection with the Proposed Restructuring contemplated by the Amended Letter Agreement, on the basis of various factors, including CRL's business, financial condition, results of operations and prospects, general economic and industry conditions, the securities markets in general and for CRL's securities in particular, as well as other developments and other investment opportunities. Based upon such review, it will take such actions in the future as it may deem appropriate in light of the circumstances existing from time to time, including but not limited to demanding payment of all or a portion of the principal and interest due under the Notes and/or exercising its rights under the Credit Agreement, as amended, the Guarantee or the Asset Sale Agreement. Depending on market and other factors, HAC may determine to dispose of some or all of the Notes and/or the Warrant pursuant to the Proposed Restructuring or otherwise.

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The foregoing descriptions of the Asset Sale Agreement, the Warrant, the Guarantee and the Amended Letter Agreement are qualified in their entirety by reference to the copies of such agreements which have been filed as exhibits to this statement.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

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The following are filed herewith as Exhibits to the statement:

EXHIBIT NO.	DESCRIPTION
1	Asset Sale Agreement, dated as of May 31, 2000, between Harman Acquisition Corp. (F/K/A Orban, Inc.) and CRL Systems, Inc.(1)
2	Warrant, dated May 31, 2000, issued by Circuit Research Labs, Inc. to Harman Acquisition Corp.(1)
3	Guarantee and Collateral Agreement, dated as of May 31, 2000, made by Circuit Research Labs, Inc., as Parent, CRL Systems, Inc., as Borrower, in favor of Harman Acquisition Corp., as Lender.(1)
4	Joint Filing Agreement(1)
5	Letter Agreement, dated as of March 27, 2003, among Circuit Research Labs, Inc., CRL Systems, Inc. and Harman Acquisition Corp.(2)
6	Letter Agreement dated as of April 30, 2003, among Circuit Research Labs, Inc., CRL Systems, Inc. and Harman Acquisition Corp.

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(1) Filed previously as an exhibit to the Schedule 13D

(2) Filed previously as an exhibit to Amendment No. 1

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After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: May 2, 2003

HARMAN ACQUISITION CORP.

By: /s/ FRANK MEREDITH

-----  
Frank Meredith, Secretary

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED

By: /s/ FRANK MEREDITH

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Frank Meredith, Executive Vice President  
and Chief Financial Officer

nts are on file with the SEC. The ownership interest of each actual owner of SQUIDS ("Beneficial Owner") within the DTC system is recorded on the Direct and Indirect Participants' records and is credited to the Direct Participant on DTC's records. Beneficial Owners do not receive written confirmation from DTC of their transactions, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial owners exchanged or hold SQUIDS. Transfers of ownership interests in the SQUIDS are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in SQUIDS, except in the event that use of the book-entry system for the SQUIDS is discontinued. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in SQUIDS represented by a global certificate. To facilitate subsequent transfers, all the SQUIDS deposited by Participants with DTC are registered in the name of Cede. The deposit of SQUIDS with DTC and their registration in the name 133 of Cede effect no change in beneficial ownership. DTC has no knowledge of the identity of the Beneficial Owners of the SQUIDS, as its records reflect only the identity of the Direct Participants to whose accounts such SQUIDS are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time. Redemptions are coordinated through DTC. Redemption notices shall be sent to Cede. Interest payments on the SQUIDS are made to DTC. DTC's practice is to credit Direct Participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's record unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in "street name," and such payments will be the responsibility of such Participant and not of DTC, the Trust, or the Company, subject to any statutory or regulatory requirements to the contrary that may be in effect from time to time. Payment of interest to DTC is the responsibility of the issuer of the SQUIDS, disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants. DTC has advised the Company that it will take any action permitted to be taken by a holder of SQUIDS only at the direction of one or more Participants to whose account with DTC interests in shares presented by a global certificate are credited and only in respect of such number of SQUIDS represented by a global certificate as to which such Participants have given such direction. Except as provided herein, a Beneficial Owner in a global SQUIDS certificate will not be entitled to receive physical delivery of such securities. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under such securities. Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants, the ability of a person having a beneficial interest in shares represented by a global certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. DTC may discontinue providing its services as Depository with respect to the SQUIDS at any time by giving reasonable notice to the issuer. Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the SQUIDS for which DTC has discontinued its services are required to be printed and delivered. In addition, we may decide to discontinue use of the system of book-entry transfers through DTC (or any successor depository) with respect to SQUIDS. Use of the book-entry system through DTC will also be discontinued if an Event of Default occurs. In either event, certificates for such SQUIDS will be printed and delivered. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Conditions to Separation We will not permit the Separation to occur, unless: (1) USX has received a private letter ruling from the IRS that the Separation will qualify as a tax-free transaction within the meaning of Section 355 of the Code; 134 (2) the transactions that give effect to the Value Transfer have occurred; (3) USX has not amended (i) the definition of U. S. Steel Group in its certificate of incorporation or by-laws or (ii) its Management and Allocation Policies, in either case, in any manner adverse to the holders of the SQUIDS; (4) immediately following the Separation and after giving pro forma effect to any subsequent payments to be made as part of the Separation, (x) we have an aggregate of at least \$400 million available in undrawn financings and cash, of which at least \$300 million is

available under facilities with terms extending at least three years after the date such facilities are put in place, and (y) no Default shall have occurred and be continuing; and (5) any differences between the documents giving effect to the Separation (x) as executed and delivered and (y) as described in this prospectus may not have a material adverse effect on the holders of the SQUIDS. Change in Control Offer If a Change in Control occurs, we will offer to purchase SQUIDS (the "Change in Control Offer"), at a purchase price (the "Change in Control Purchase Price") equal to 100% of the principal amount thereof, together with accrued interest to the Change in Control Purchase Date referred to below (except that interest installments due before the Change in Control Purchase Date will be payable to the holders of those SQUIDS of record at the close of business on the relevant record dates), as of the date that is 35 business days after the occurrence of the Change in Control (the "Change in Control Purchase Date"), subject to satisfaction by or on behalf of the holders of the requirements included in the Indenture. A "Change in Control" will be deemed to have occurred when any of the following events will occur: . any "person" or group of persons has acquired "beneficial ownership" (within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended, and the applicable rules and regulations thereunder) of shares of Voting Stock representing at least 35% of the outstanding Voting Power of United States Steel or, for as long as the guarantee by USX of the SQUIDS remains in effect, of USX; . during any period of 25 consecutive months, commencing before or after the Expiration Date, individuals who at the beginning of that 25-month period were directors of United States Steel or, for as long as the guarantee by USX of the SQUIDS remains in effect, USX, together with any replacement or additional directors whose election was recommended by incumbent management of United States Steel or USX, as applicable, or who were elected by a majority of directors then in office, cease to constitute a majority of the board of directors of United States Steel or USX, as applicable; . any person or group of related persons has acquired all or substantially all of the assets of United States Steel or, for as long as the guarantee by USX of the SQUIDS remains in effect, of USX; or . the disposition, transfer or sale of the interests held in United States Steel by USX, except in accordance with the Separation consummated in compliance with the covenant described under "Certain Covenants-- Conditions to the Separation".

135 Notwithstanding the foregoing: . in no event will the Separation, as described in this prospectus, or any transfer or reorganization in connection with the Separation, be deemed to be a Change in Control for purposes of this "--Change in Control Offer"; . a Change in Control will not be deemed to have occurred under the third bullet point of the previous paragraph if United States Steel or USX, as applicable, will have merged or consolidated with or transferred all or substantially all of its assets to another Person in compliance with the provisions under "Certain Covenants--Merger and Consolidation" and the surviving or successor or transferee Person is no more leveraged than was United States Steel or USX, as applicable, immediately prior to that Change in Control and, in the event of a Change in Control with respect to USX, that Change in Control does not result in United States Steel being more leveraged; the term "leveraged", when used with respect to any person, will mean the percentage represented by the total assets of that person divided by its stockholders' or total equity, as applicable, in each case determined and as would be shown in a consolidated balance sheet of that Person prepared in accordance with generally accepted accounting principles in the United States of America; and . a Change in Control will not be deemed to have occurred by virtue of (1) United States Steel, USX, any of their respective Subsidiaries, any employee stock ownership plan or any other employee benefit plan of United States Steel, USX or any of their respective Subsidiaries, or any person holding Voting Stock for or pursuant to the terms of any such employee benefit plan, acquiring beneficial ownership of shares of Voting Stock, whether representing 35% or more of the outstanding Voting Power of United States Steel or USX, as applicable, or otherwise or (2) any person whose ownership of shares of Voting Stock representing 35% or more of the outstanding Voting Power of USX results solely from USX's calculation from time to time of the relative voting rights of the classes of Voting Stock of USX. Within 15 business days after the occurrence of a Change in Control, we will mail a written notice of Change in Control by first-class mail to the Trustee and to each holder, and to the beneficial owners as required by applicable law, of SQUIDS and will cause a copy of that notice to be published in a daily newspaper of national circulation. The notice will state: (1) the events causing a Change in Control, specifying those events, and the date of that Change in Control; (2) the date by which holders must give notice of the exercise of their rights under the Change in Control Offer; (3) the Change in Control Purchase Date; (4) the Change in Control Purchase Price; (5) the name and address of the paying agent for the SQUIDS; (6) that on the Change in Control Purchase Date, all SQUIDS surrendered in accordance with this "--Change in Control Offer" for payment at the Change in Control Purchase Price will be purchased by us at that price and, if applicable, that interest thereon will cease to accrue on and after that date; (7) the procedures the holders must follow to exercise rights under this

"--Change in Control Offer", including procedures to be followed by a holder acting as a holder of record on 136 behalf of more than one beneficial owner in exercising rights specified in this section with respect to less than all of those beneficial owners; and (8) the procedures for withdrawing a Change in Control Purchase Notice. We will not be required to make a Change in Control Offer following a Change in Control if a third party makes the Change in Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change in Control Offer made by us and purchases all SQUIDS validly tendered and not withdrawn under such Change in Control Offer. We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of SQUIDS as a result of a Change in Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the covenant described hereunder by virtue of its compliance with such securities laws or regulations. The Change in Control purchase feature of the SQUIDS may in certain circumstances make more difficult or discourage a sale or takeover of United States Steel and, thus, the removal of incumbent management. We have no present intention to engage in a transaction involving a Change in Control, although it is possible that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change in Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. The Indenture will not contain any covenants or provisions that may afford holders of the SQUIDS protection in the event of a highly leveraged transaction. Any senior credit facility that we enter into in connection with the Separation or otherwise may prohibit us from purchasing any SQUIDS and may also provide that the occurrence of certain change of control events with respect to us would constitute a default thereunder. In the event a Change in Control occurs at a time when we are prohibited from purchasing SQUIDS, we may seek the consent of our lenders to the purchase of SQUIDS or may attempt to refinance the borrowings that contain such prohibition. If we do not obtain such a consent or repay such borrowings, we will remain prohibited from purchasing SQUIDS. In such case, our failure to offer to purchase SQUIDS would constitute a default under the Indenture, which may, in turn, constitute a default under any such credit facility. Future indebtedness that we may incur may contain prohibitions on the occurrence of certain events that would constitute a change in control or require the repurchase of such indebtedness upon a change in control. Moreover, the exercise by the holders of their right to require us to repurchase the SQUIDS could cause a default under such indebtedness, even if the Change in Control itself does not, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to the holders of SQUIDS following the occurrence of a Change in Control may be limited by our then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases. The provisions under the Indenture relative to our obligation to make an offer to repurchase the SQUIDS as a result of a Change in Control may be waived or modified with respect to the SQUIDS with the written consent of the holders of a majority in principal amount of the SQUIDS. 137 Certain Covenants The Indenture contains covenants including, among others, those described below. Limitation on Liens If we or any of our Subsidiaries mortgages, pledges, encumbers or subjects to a lien (to "Mortgage" or a "Mortgage", as the context may require), as security for any indebtedness for money borrowed, any Principal Property or any shares of stock or other equity interests in any of our Subsidiaries that own, directly or indirectly, one or more Principal Properties, we will secure or will cause our applicable Subsidiary to secure the SQUIDS equally and ratably with all indebtedness or obligations secured by the Mortgage then being given and with any other indebtedness of ours or that Subsidiary then entitled to that Mortgage. However, this covenant will not apply in the case of: . any Mortgage incurred by any Subsidiary of ours to secure indebtedness for money borrowed incurred by such Subsidiary; . any Mortgage, including a purchase money Mortgage, incurred in connection with the acquisition of any Principal Property or shares of stock or other equity securities (for purposes of this exception, the creation of any Mortgage within 180 days after the acquisition or completion of construction of that Principal Property or those shares of stock or other equity securities will be deemed to be incurred in connection with the acquisition of that Principal Property or those shares of stock or other equity securities), the assumption of any Mortgage previously existing on that acquired Principal Property or those acquired shares of stock or other equity interests or any Mortgage existing on the Principal Property of any Person when that Person becomes a Subsidiary of ours; . any Mortgage in favor of the United States of America, any State, any foreign government or any agency, department, political subdivision or other

instrumentality of any of the foregoing, to secure partial, progress or advance payments to us or any of our Subsidiaries pursuant to the provisions of any contract or any statute; . any Mortgage in favor of the United States of America, any State, any foreign government or any agency, department, political subdivision or other instrumentality of any of the foregoing, to secure borrowings by us or any of our Subsidiaries for the purchase or construction of the Principal Property Mortgaged; . any Mortgage on any Principal Property arising in connection with or to secure all or any part of the cost of the repair, construction, improvement or alteration of that Principal Property or any portion of that Principal Property; . any Mortgage existing on the date of the Indenture, whether or not that Mortgage includes an after-acquired property provision; or . any renewal of or substitution for any Mortgage permitted under the preceding exceptions; provided, however, that the principal amount of indebtedness secured by the Mortgage may not exceed the principal amount of indebtedness secured at the time of the renewal or substitution and that the renewal or substitution must be limited to all or a part of the Principal Property, plus improvements and construction on that Principal Property, or shares of stock or other equity securities which were subject to the Mortgage that was renewed or substituted.

**138 Limitation on Sale/Leaseback Transactions** We will not, and we will not permit any of our Subsidiaries to, sell or transfer any Principal Property with the intention of taking back a lease on that Principal Property. However, this covenant will not apply if: . the lease is to one of our Subsidiaries, or to us in the case of a Subsidiary of ours; . the lease is for a temporary period by the end of which it is intended that the use of that Principal Property by the lessee will be discontinued; . we or one of our Subsidiaries could, in accordance with the covenant "Limitation on Liens", Mortgage that Principal Property without equally and ratably securing the SQUIDS; . (1) we promptly inform the Trustee of that sale, (2) the net proceeds of that sale are at least equal to the fair market value (as determined by resolution adopted by our board of directors) of that Principal Property and (3) we will, and in any such case we covenant that we will, within 180 days after that sale, apply an amount equal to the net proceeds of that sale to the retirement of our debt or of debt of a Subsidiary of ours in the case of Principal Property of that Subsidiary, maturing by its terms more than one year after the date on which it was originally incurred (the "funded debt"); provided that the amount to be applied to the retirement of funded debt of ours or of a Subsidiary of ours will be reduced by the amount below if, within 75 days after that sale, we deliver to the Trustee an officers' certificate stating: . that on a specified date after that sale we or a Subsidiary of ours, as the case may be, voluntarily retired a specified principal amount of funded debt; . that the retirement was not effected by payment at maturity or pursuant to any applicable mandatory sinking fund or prepayment provision, other than provisions requiring retirement of any funded debt of ours or a Subsidiary of ours, as the case may be, under the circumstances referred to in this covenant; and . the then optional redemption or prepayment price applicable to the funded debt so retired or, if there is no such price applicable, the amount applied by us or our Subsidiary, as the case may be, to the retirement of that funded debt. In the event of such a sale or transfer, we will deliver to the Trustee a certified copy of the resolution of our board of directors referred to in the parenthetical phrase contained in clause (2) of the last exception above and an officers' certificate setting forth all material facts under this covenant. For purposes of this covenant, the term "retirement of funded debt" will include the "in substance defeasance" of that funded debt in accordance with then applicable accounting rules.

**Exempted Liens and Sale/Leaseback Transactions** Notwithstanding the restrictions set forth in "--Limitation on Liens" and "--Limitation on Sale/Leaseback Transactions" above, we or any of our Subsidiaries may, without equally and ratably securing the SQUIDS, (1) Mortgage any Principal Property or any shares of stock or other equity interests in any of our Subsidiaries that owns, directly or indirectly, one or more Principal Properties or (2) sell or transfer any Principal Property with the intention of taking back a lease on that Principal Property; provided, that, in each case, at the time of that event, and after giving effect thereto, the sum of the aggregate net book value of Principal Property or shares of stock or other equity securities so Mortgaged and the aggregate net book value of all Principal Property then subject to a sale/leaseback transaction (other than as permitted under "--Limitation on Liens" and "--Limitation on Sale/Leaseback Transactions" above) does not exceed 10% of Consolidated Net Tangible Assets.

**139 Merger and Consolidation** We will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all of our assets to, any Person, unless: (1) the resulting, surviving or transferee Person (the "Successor Company") shall be a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and the Successor Company (if not us) shall expressly assume, by an indenture supplemental thereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all our obligations under the SQUIDS and the Indenture; (2) immediately after such transaction, no Default shall have occurred and be continuing; and (3) the Company shall have delivered to

the Trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture. The Successor Company will be the successor to us and will succeed to, and be substituted for, and may exercise every right and power of, ours under the Indenture, and we, except in the case of a lease, would be released from the obligation to pay the principal of and interest on the SQUIDS. So long as the guarantee of the SQUIDS is in effect, USX may not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all of its assets to, any Person, unless: (1) the resulting, surviving or transferee Person (the "Successor Guarantor") shall be a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and the Successor Guarantor (if not USX) shall expressly assume, by an indenture supplemental thereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of USX under the SQUIDS and the Indenture; (2) immediately after such transaction, no Default shall have occurred and be continuing; and (3) USX shall have delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture. The Successor Guarantor will be the successor to USX and will succeed to, and be substituted for, and may exercise every right and power of, USX under the Indenture, and USX, except in the case of a lease, shall be released from its obligations under the guarantee of the SQUIDS. Defaults Each of the following is an Event of Default: (1) a default in the payment of interest on the SQUIDS when due, continued for 30 days; (2) a default in the payment of principal of any SQUID at its stated maturity, upon optional redemption, upon a Change in Control Offer, upon declaration of acceleration or otherwise; (3) the failure by us to comply with our obligations under "--Certain Covenants--Merger and Consolidation" above; (4) the failure by us to comply for 30 days after notice with any of our other obligations in the covenants described above under "--Certain Covenants" above; (5) the failure by us or USX to comply for 60 days after notice with any of the other agreements contained in the Indenture; (6) certain events of bankruptcy, insolvency or reorganization of USX, us or a significant subsidiary of ours (the "bankruptcy provisions"); (7) any judgment or decree for the payment of money in excess of \$50 million is entered against us or a significant subsidiary of ours, remains outstanding for a period of 60 consecutive days following such judgment and is not discharged, waived or stayed within 10 days after notice (the "judgment default provision"); or (8) prior to the Separation, the guarantee ceases to be in full force and effect (other than in accordance with its terms) or USX denies or disaffirms its obligations under the guarantee (the "security default provision"). However, a default under clauses (4) and (5) will not constitute an Event of Default until the Trustee or the holders of 25% in principal amount of the outstanding SQUIDS notify the Company of the default and the Company does not cure such default within the time specified after receipt of such notice. If an Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the outstanding SQUIDS may declare the principal of and accrued but unpaid interest on all the SQUIDS to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default relating to certain events related to our bankruptcy, insolvency or reorganization occurs and is continuing, the principal of and interest on all the SQUIDS will ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holders of the SQUIDS. Under certain circumstances, the holders of a majority in principal amount of the outstanding SQUIDS may rescind any such acceleration with respect to the SQUIDS and its consequences. Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders of the SQUIDS unless such holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no holder of a SQUID may pursue any remedy with respect to the Indenture or the SQUIDS unless: (1) such holder has previously given the Trustee notice that an Event of Default is continuing; (2) holders of at least 25% in principal amount of the outstanding SQUIDS have requested the Trustee to pursue the remedy; (3) such holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense; (4) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity; and (5) holders of a majority in principal amount of the outstanding SQUIDS have not given the Trustee a direction inconsistent with such request within such 60-day period. Subject to certain restrictions, the holders of a majority in principal amount of the outstanding SQUIDS are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however,

may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other holder of the SQUIDS or that would involve the Trustee in personal liability. If a Default occurs, is continuing and is known to the Trustee, the Trustee must mail to each holder of the SQUIDS notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of or interest on the SQUIDS, the Trustee may withhold notice if 141 and so long as a committee of its trust officers determines that withholding notice is not opposed to the interest of the holders of the SQUIDS. In addition, we are required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. We are required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any event which would constitute certain Defaults, their status and what action we are taking or proposes to take in respect thereof. Amendments and Waivers Subject to certain exceptions, the Indenture may be amended with respect to any series of SQUIDS with the consent of the holders of a majority in principal amount of that series of SQUIDS then outstanding (including consents obtained in connection with a tender offer or exchange for the SQUIDS) and any past default or compliance with any provisions may also be waived with the consent of the holders of a majority in principal amount of that series of SQUIDS then outstanding. However, without the consent of each holder of outstanding SQUIDS affected thereby, an amendment or waiver may not, among other things: (1) reduce the amount of SQUIDS whose holders must consent to an amendment; (2) reduce the rate of or extend the time for payment of interest on any of the SQUIDS; (3) reduce the principal of or extend the Stated Maturity of any of the SQUIDS; (4) reduce the amount payable upon the redemption of any of the SQUIDS or change the time at which any of the SQUIDS may be redeemed as described under "--Optional Redemption"; (5) make any of the SQUIDS payable in currency other than that stated in the SQUIDS; (6) impair the right of any holder of the SQUIDS to receive payment of principal of and interest on such holder's SQUIDS on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder's SQUIDS; (7) make any change in the amendment provisions which require each holder's consent or in the waiver provisions; (8) make any change in the ranking or priority of any of the SQUIDS that would adversely affect the holders; or (9) make any change in the guarantee that would adversely affect the holders. Notwithstanding the preceding, without the consent of any holder of the SQUIDS, we, USX and the Trustee may amend the Indenture: (1) to cure any ambiguity, omission, defect or inconsistency; (2) to provide for the assumption by a successor corporation of our obligations under the Indenture; (3) to provide for uncertificated SQUIDS in addition to or in place of certificated SQUIDS (provided that the uncertificated SQUIDS are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated SQUIDS are described in Section 163(f)(2)(B) of the Code); (4) to add guarantees with respect to the SQUIDS, or to secure the SQUIDS; (5) to add to our or USX's covenants for the benefit of the holders of the SQUIDS or to surrender any right or power conferred upon us or USX; 142 (6) to make any change that does not adversely affect the rights of any holder of the SQUIDS; or (7) to comply with any requirement of the SEC in connection with the qualification of the Indenture under the Trust Indenture Act. The consent of the holders of the SQUIDS is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment under the Indenture becomes effective, we are required to mail to holders of the SQUIDS a notice briefly describing such amendment. However, the failure to give such notice to all holders of the SQUIDS, or any defect therein, will not impair or affect the validity of the amendment. Transfer Initially all the SQUIDS are held through DTC. DTC's records reflect only the identity of the Direct Participants to whose accounts the SQUIDS are credited. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. The SQUIDS will be issued in registered form and will be transferable only upon the surrender of the SQUIDS being transferred for registration of transfer. We may require payment of a sum sufficient to cover any tax, assessment or other governmental charge payable in connection with certain transfers and exchanges. Defeasance At any time, we may terminate all our obligations under the SQUIDS and the relevant Indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the SQUIDS, to replace mutilated, destroyed, lost or stolen SQUIDS and to maintain a registrar and paying agent in respect of the SQUIDS. In addition, at any time we may terminate our obligations under the covenants described under "--Certain Covenants" (other than the covenant described under "--Merger and Consolidation"), the bankruptcy provisions with respect to significant subsidiaries and the judgment default provision described under "--Defaults" above and the limitations contained in clause (3) under "--Certain Covenants--Merger and Consolidation" above

("covenant defeasance"). We may exercise our legal defeasance option notwithstanding our prior exercise of our covenant defeasance option. If we exercise our legal defeasance option, payment of the SQUIDS may not be accelerated because of an Event of Default with respect thereto. If we exercise our covenant defeasance option, payment of the SQUIDS may not be accelerated because of an Event of Default specified in clause (4), (6) (with respect only to our significant subsidiaries) or (7) under "--Defaults" above or because of our failure to comply with clause (3) of the first paragraph under "--Certain Covenants-- Merger and Consolidation" above. If we exercise our legal defeasance option or our covenant defeasance option, USX will be released from all of its obligations with respect to its guarantee. In order to exercise either of our defeasance options, we must irrevocably deposit in trust (the "defeasance trust") with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the SQUIDS to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of an opinion of counsel to the effect that holders of the SQUIDS will not recognize income, gain or loss for U.S. Federal income tax 143 purposes as a result of such deposit and defeasance and will be subject to U.S. Federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and, in the case of legal defeasance only, such opinion of counsel must be based on a ruling of the Internal Revenue Service or change in applicable U.S. Federal income tax law). Concerning the Trustee The Bank of New York is to be the Trustee under the Indenture. The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of ours, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; provided, however, if it acquires any conflicting interest it must either eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign. The holders of a majority in principal amount of the outstanding SQUIDS will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. If an Event of Default occurs (and is not cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of SQUIDS, unless such holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense and then only to the extent required by the terms of the Indenture. NYSE Listing We have applied for listing of the SQUIDS on the NYSE. The SQUIDS are expected to trade "flat". This means that the SQUIDS will trade at prices that will include accrued and unpaid dividends and purchasers will not receive any accrued and unpaid interest on the SQUIDS that is not included in the trading price. No Personal Liability of Directors, Officers, Employees and Stockholders No director, officer, employee, incorporator or stockholder of ours or of USX will have any liability for any obligations of ours or of USX under the SQUIDS, the guarantee or the Indenture or for any claim based on, in respect of, or by reason of such obligations or their creation. Each holder of the SQUIDS, by accepting SQUIDS, waives and releases all such liability. The waiver and release are part of the consideration for issuance of the SQUIDS. Such waiver and release may not be effective to waive liabilities under the U.S. federal securities laws, and it is the view of the SEC that such a waiver is against public policy. Governing Law The Indenture and the SQUIDS will be governed by, and construed in accordance with, the laws of the State of New York. Certain Definitions "Consolidated Net Tangible Assets" means the aggregate value of all of our assets and the assets of our consolidated subsidiaries after deducting from those assets (1) all current liabilities, excluding all long-term debt due within one year, (2) all investments in unconsolidated subsidiaries and all investments accounted for on the equity basis and (3) all goodwill, patent and trademarks, 144 unamortized debt discount and other similar intangibles, all determined in conformity with generally accepted accounting principles and calculated on a basis consistent with our most recent audited consolidated financial statements. "Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof). "Management and Allocation Policies" means the policies and procedures adopted by the board of directors of USX Corporation or otherwise used by USX Corporation for the purpose of preparing financial statements of the U.S. Steel Group. "Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity. "Principal Property" means any blast furnace facility or steel producing facility, or casters which are part of a plant which includes such a facility, having a net book value in excess of 1% of Consolidated Net Tangible Assets at the time of determination. "Sale/Leaseback Transaction" means an arrangement relating to property owned

by the Company or a restricted subsidiary on the date SQUIDS are first issued or thereafter acquired by the Company or a restricted subsidiary whereby the Company or a restricted subsidiary transfers such property to a Person and the Company or a restricted subsidiary leases it from such Person. "Separation" means the separation of the Company from USX Corporation pursuant to the Agreement and Plan of Reorganization to be entered into among USX Corporation, the Company and certain subsidiaries in connection with the Separation, as described in this prospectus. "Separation Date" means the date the Separation occurs; provided such date is on or prior to December 31, 2002.

"Subsidiary" means, with respect to any person, any other person the majority of the outstanding shares of Voting Stock of which are, directly or indirectly, owned or controlled by that first person or the management or policies of which are otherwise, directly or indirectly, controlled by that first person. "U. S. Steel Group" means the U. S. Steel Group of USX Corporation, as defined in the Restated Certificate of Incorporation of USX Corporation. "Voting Power", as applied to the stock of any person, means the total voting power represented by all outstanding Voting Stock of that person. "Voting Stock" of a person means all classes of capital stock or other interests, including partnership interests, of that person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

145 COMPARISON OF THE OUTSTANDING SECURITIES AND THE SQUIDS The following is a summary comparison of the material terms of the Outstanding Securities and the SQUIDS. This summary does not purport to be complete and is qualified in its entirety by reference to the documents governing the Outstanding Securities and the SQUIDS, copies of which have been filed as exhibits to the registration statement of which this prospectus forms a part. For a more detailed description of the SQUIDS, see "Description of the SQUIDS" on page 131.

6.50% PREFERRED STOCK 6.75% QUIPS 8.75% MIPS SQUIDS ----- Issuer.....

USX Corporation. USX Capital Trust USX Capital LLC, a The SQUIDS will be I, a Delaware limited life issued by United statutory business company organized States Steel LLC, a trust and a wholly under the laws of Delaware limited owned subsidiary of the Turks and liability company USX Corporation. Caicos Islands and which is to be a wholly owned converted at the subsidiary of USX Separation into a Corporation. Delaware corporation named United States Steel Corporation. United States Steel LLC is currently a wholly owned subsidiary of USX Corporation. Credit Support..... None. USX has fully and USX has fully and The SQUIDS will unconditionally unconditionally initially be guaranteed the guaranteed the guaranteed by USX payment of payment of Corporation (the distributions and distributions and "SQUIDS rights upon rights upon Guarantee"). USX liquidation of USX liquidation of USX will be released or redemption of or redemption of from the SQUIDS the 6.75% QUIPS the 8.75% MIPS (the Guarantee if the (the "6.75% QUIPS "8.75% MIPS Separation occurs Guarantee"). The Guarantee"). The on or before 6.75% QUIPS 8.75% MIPS December 31, 2002. Guarantee will Guarantee will exist as long as exist as long as the 6.75% QUIPS are the 8.75% MIPS are outstanding. outstanding. The 6.75% QUIPS The 8.75% MIPS The SQUIDS Guarantees ranks Guarantee ranks tee will rank subordinate and subordinate and equally in right of junior in right of junior in right of payment to the payment to all payment to all other senior in- other liabilities other liabilities indebtedness of USX of USX, equally in of USX and senior and senior in right right to the most to the most of payment to all senior preferred or preferred or subordinated in- preference stock preference stock indebtedness of USX. issued by USX and issued by USX. senior to the common stock of USX. Distribution on Liquidation..... Upon liquidation of Upon liquidation of Upon liquidation of As senior debt, it USX, holders of USX Capital Trust USX Capital LLC, is paid in full 6.50% Preferred I, holders of holders of before any Stock are entitled outstanding 6.75% outstanding 8.75% preferred to receive \$50.00 QUIPS are entitled MIPS are entitled securities or per share, together to receive \$50.00 to receive \$25.00 subordinated debt with accrued and per share, together per share, together of USX in unpaid dividends, with accrued and with accrued and liquidation. after payment in unpaid unpaid dividends, full of all distributions, after payment in indebtedness of after payment in full of all senior USX. full of all senior indebtedness of indebtedness of USX. USX. 146 6.50% PREFERRED STOCK 6.75% QUIPS 8.75% MIPS SQUIDS -----

----- Subordination..... The 6.50% Pre- The 6.75% QUIPS are The 8.75% MIPS The SQUIDS are ferred Stock is subordinated to all senior are subordinated senior, subordinated to indebtedness of USX but to all unsecured obli- claims of credi- senior to all capital senior gations and will tors, including stock, including the 6.50% indebtedness rank equally in holders of USX's Preferred Stock, and to of USX. right of payment outstanding debt any guarantee now or with all of the securities and hereafter entered into by existing and fu- the Convertible USX in respect of capital ture senior in- Debentures, and stock of its affiliates, indebtedness of structurally including the guarantee on United States subordinated to the 6.75% QUIPS. Steel and will all rank senior

in existing and future right of payment to all future obligations of subordinated USX's subsidiary indebtedness. The 6.50% Preferred Stock ranks senior to all classes of common stock of USX and any shares of junior preferred stock as to payment of dividends and upon liquidation. Distribution, Dividend or Holders of the Holders of the 6.75% QUIPS Holders of the Interest Rate..... 6.50% Preferred are entitled to 8.75% MIPS are SQUIDS will be Stock are entitled to receive 6.75% per annum entitled to receive cash distributions payable receive cumulative interest cumulative cash quarterly on the last calendar day of March, June, September and December of each year, but only if, annual rate of 6.50% per annum on March 31, and to the extent that, 8.75% of the 2002 and thereafter last calendar interest payments are made liquidation after quarterly day of March, by USX in respect of convertible debentures held \$25 per share, June 30, September and December of each year, out having an aggregate principal amount equal to the original aggregate initial liquidation amount of the 6.75% QUIPS issued by USX to USX States dollars, by the Board of Capital Trust I (the "Convertible Debentures"). If USX is not in default calendar month in the payment of interest of each year, on the Convertible Debentures, USX shall have the right to defer payments of interest on the Convertible Debentures for a period of up to 20 consecutive quarters. During this time, payments on the 6.75% QUIPS will not be made but will continue to accumulate and will bear 147 6.50% PREFERRED STOCK 6.75% QUIPS 8.75% MIPS SQUIDS ----- interest at the distribution rate, compounded quarterly, to the extent permitted by applicable law. Conversion..... The 6.50% Preferred The 6.75% QUIPS are The 8.75% MIPS are The SQUIDS are not convertible, at the option of the holder, in whole or in part, into whole U. S. U. S. Steel Group Steel Group Shares at a conversion price of \$46.25 per U. S. U. S. Steel Group Steel Group Share (equivalent to a conversion ratio of 1.081 U. S. 1.081 U. S. Steel Group Shares for each 6.50% Preferred Stock), subject to adjustments upon certain events. Mandatory Redemption..... In certain circumstances, if not subject to USX causes the mandatory redemption of the redemption. U. S. Steel Group U. S. Steel Group Shares or the Marathon Group Marathon Group Shares, USX must redeem the 6.50% Preferred Stock, in whole, for \$50 per Debentures, in share, together with accrued and the principal unpaid dividends to amount thereof, the redemption together with interest accrued and unpaid to the redemption date. Upon this, or any redemption by USX of the Convertible Debentures, USX Capital Trust I is required to use the funds received in redemption to redeem a number of 6.75% QUIPS having an aggregate liquidation amount equal to the aggregate principal amount of the Convertible Debentures redeemed. In certain circumstances, the USX Capital Trust I could be dissolved and the Convertible Debentures would be distributed to holders of the 6.75% QUIPS. 148 6.50% PREFERRED STOCK 6.75% QUIPS 8.75% MIPS SQUIDS ----- Optional Redemption..... The 6.50% Preferred The Convertible The 8.75% MIPS are The SQUIDS will be Stock is redeemable Debentures are redeemable, at the option of USX option of United USX, in whole or in part, upon not less than 30 days' notice nor from time to time, after December 31, scheduled more than 60 days' for \$25 per share 2006, upon not less redemption price notice, at a plus accumulated than 30 days' per share, which scheduled and unpaid notice nor more price is currently, redemption price dividends (whether than 60 days' and through per share, which or not declared) to notice, at a December 31, 2001 price is currently, the date fixed for redemption price will be, equal to and through redemption. The equal to 100% of \$50.65, together December 31, 2001 8.75% MIPS must be the principal with accrued and will be, equal to redeemed if USX amount redeemed unpaid dividends or \$50.65, together repays a loan made plus accrued but interest thereon to with accrued and by USX Capital LLC unpaid interest to the redemption unpaid to USX from the redemption date. USX will not distributions proceeds received date. At any time exercise its option thereon to the by USX Capital LLC on or prior to to redeem the 6.50% redemption date. from the issuance

December 31, 2002, Preferred Stock if Upon this, or any of the 8.75% MIPS if the board of USX is advised in redemption by USX (the "8.75% MIPS directors of USX advance by either of the Convertible Loan"). has determined not Moody's or S&P that Debentures, USX to proceed with the to do so would Capital Trust I is Separation, the result in an required to use the SQUIDS may be immediate lowering funds received in redeemed in whole of USX's credit redemption to or in part at the rating on its redeem a number of option of United senior unsecured 6.75% QUIPS having States Steel, upon debt from its then an aggregate not less than existing level, liquidation amount 30 days' notice nor unless USX shall equal to the more than 60 days' have received from aggregate principal notice, at a the issuance of its amount of the redemption price common stock, since Convertible equal to 100% of the date which is Debentures the principal two years prior to redeemed. USX will amount redeemed the redemption not exercise its plus accrued but date, net proceeds option to redeem unpaid interest to in an aggregate the 6.75% QUIPS if the redemption amount at least USX is advised in date. In connection equal to the advance by either with any partial aggregate principal Moody's Investors redemption, at amount of the Service, Inc. least the minimum securities to be ("Moody's") or aggregate principal redeemed. Standard & Poor's amount of SQUIDS Corporation ("S&P") required to that to do so would maintain listing of result in an the SQUIDS on the immediate lowering NYSE, under the of USX's credit rules and rating on its regulations senior unsecured thereof, must debt from its then remain outstanding existing level, following such unless USX shall partial redemption. have received from the issuance of its common stock, since the date which is two years prior to the redemption date, net proceeds in an aggregate amount at least equal to the aggregate principal amount of the securities to be redeemed. 149 6.50% PREFERRED STOCK 6.75% QUIPS 8.75% MIPS SQUIDS ----- Limitation on Liens..... The terms of the The terms of the Under the Inden- 6.50% Preferred 6.75% QUIPS do not 8.75% MIPS do not ture, United States Stock do not contain a covenant contain a covenant Steel and its sub- contain a covenant with respect to with respect to sidiaries are pro- with respect to limitations on limitations on hibited from, di- limitations on liens. liens. rectly or indirect- liens. ly, creating, as- suming or permit- ting to exist any lien securing any indebtedness on any Principal Property, other than certain permitted liens, without effectively providing that the SQUIDS shall be se- cured equally and ratably with the obligations so se- cured. Limitations on Sale/Leaseback Transactions..... The terms of the The terms of the The terms of the Under the Inden- 6.50% Preferred 6.75% QUIPS do not 8.75% MIPS do not ture, unless other- Stock do not contain any contain any wise provided contain any covenants with covenants with therein, United covenants with respect to respect to States Steel and respect to limitations on limitations on its subsidiaries limitations on sale/leaseback sale/leaseback are prohibited from sale/leaseback transactions. transactions. entering into any transactions. sale/lease- back transaction with respect to any Principal Property, other than certain permitted transactions. Limitations on Dividends and Redemptions..... Unless the full cu- Pursuant to the Pursuant to the The terms of the mulative dividends 6.75% QUIPS Guaran- 8.75% MIPS Loan, if SQUIDS do not on all outstanding tee, if USX or USX USX or USX Capital contain any cove- 6.50% Preferred Capital Trust I is LLC is in default nants with respect Stock are paid in in default of its of its obligations, to declaring full, USX is gener- obligations, USX is USX is generally dividends or making ally prohibited generally prohib- prohibited from de- redemptions, from declaring or ited from declaring claring or paying repurchases or paying dividends or paying dividends dividends on, mak- similar on, making any dis- on, making any dis- ing any distribu- transactions. tribution with re- tributions with re- tions with respect spect to, or re- spect to, or re- to, or redeeming, deeming, purchas- deeming, purchas- purchasing, acquir- ing, acquiring or ing, acquiring or ing or making liq- making liquidation making liquidation uidation payments payments with re- payments with re- with respect to spect to any other spect to any of its any of its capital capital stock of capital stock. stock. USX ranking equally or junior to the 6.50% Preferred Stock. 150 6.50% PREFERRED STOCK 6.75% QUIPS 8.75% MIPS SQUIDS ----- Events of Default and Acceleration..... In the event that Upon certain (i) if USX Capital Upon certain Events the equivalent of defaults of USX LLC fails to pay of Default (as six quarterly Capital Trust I or dividends on the defined herein), dividends (whether if USX defaults on 8.75% MIPS for 18 holders of 25% of consecutive or not) their obligations consecutive monthly the aggregate are accrued but not under the dividend periods; outstanding SQUIDS paid, holders of Convertible (ii) after certain may direct the 6.50% Preferred Debentures, holders defaults by USX on trustee to declare Stock have certain of 25% of the its payments on the the principal and voting rights to aggregate 8.75% MIPS Loan; or accrued but unpaid elect two outstanding 6.75% (iii) after USX is interest to be additional QUIPS may direct in default of any immediately due and directors to the the appointed of its obligations payable. For more board of trustee for the under the information, see directors of USX.

Convertible Guarantee, the "Description of the Debentures to holders of the SQUIDS--Defaults" declare the 8.75% MIPS will be on page 140. principal and entitled to interest on the authorize a trustee Convertible to enforce the Debentures to be payment of immediately due and dividends, the payable. 8.75% MIPS Guarantee and the 8.75% MIPS Loan. Mergers and Consolidation..... The terms of the The terms of the The 8.75% MIPS Loan Under the 6.50% Preferred 6.75% QUIPS and the provides that USX Indenture, United Stock do not Convertible may not merge with States Steel and contain any Debentures or into another USX may not covenants which generally prohibit entity, permit consolidate with or limit USX's ability USX and USX Capital another entity to merge into any to engage in Trust I from merge with or into other entity, or mergers and engaging in certain USX or sell, sell, convey, consolidations. consolidations, transfer or lease transfer or lease mergers, all or all or conveyances, substantially all substantially all transfers or of its assets to of its properties leases. For another entity and assets to any instance, USX may unless: person without the not merge or consent of the consolidate or sell holders of the substantially all SQUIDS unless: of its assets unless the . immediately successor after such corporation (if not transaction, no USX) is a domestic default (as corporation and defined in the . the successor assumes USX's 8.75% MIPS Loan) entity is obligations under shall have a person orga- the Convertible occurred and be nized and val- Debentures. continuing; and idly existing . the survivor of under the laws such merger or of the United entity to which States or any USX's assets are state thereof sold, and the succes- transferred or sor company (if leased (if not not United USX) is an States Steel or entity organized USX) shall ex- under the laws pressly of the United assume all of States or any United States state thereof Steel's (or, if and assumes all applicable, of USX's USX's) obligations obligations un- under the 8.75% der the SQUIDS MIPS Loan. and the Indenture. . immediately after such transaction, no Event of Default shall have occurred and be continuing. 151 6.50% PREFERRED STOCK 6.75% QUIPS 8.75% MIPS SQUIDS -----  
----- The company shall have delivered to the Trustee an officers' certificate and an opinion of counsel each stating that such consolidation, merger, or transfer and such supplemental indenture (if any) comply with the Indenture. Conditions to the Separation..... The terms of the The 6.75% QUIPS do The 8.75% MIPS do The SQUIDS impose 6.50% Preferred not contain any not contain any conditions on the Stock do not conditions to the conditions to the completion of the contain any Separation. Separation. Separation, as conditions to the described in Separation. "Description of the SQUIDS-Conditions to Separation" on page 134. Voting Rights..... Generally, the Holders of the Holders of the Holders of the 6.50% Preferred 6.75% QUIPS do not 8.75% MIPS do not SQUIDS will not Stock is non- have any right to have any right to have any right to voting. Holders of vote on any matter vote on any matter vote on any matter 6.50% Preferred requiring USX requiring USX requiring United Stock will have stockholder stockholder States Steel or USX voting rights in approval. approval. stockholder certain approval. circumstances. If six full quarterly dividends (whether consecutive or not) payable on the preferred stock of USX of any series (including the 6.50% Preferred Stock) are accrued and unpaid, the holders of preferred stock of all series will have the right at a stockholder meeting, voting as a single class without regard to series, to elect two additional directors of USX. The approval of the holders of at least 66 2/3% of the outstanding shares of 6.50% Preferred Stock and all other preferred stock ranking on a parity with the 6.50% Preferred Stock, voting separately as a class, will be required for certain amendments to USX's Certificate of Incorporation affecting adversely the powers, preferences or rights of holders of the 6.50% Preferred Stock and to authorize the issuance of any class or series of preferred stock ranking senior to the 6.50% Preferred Stock as to dividends or liquidation rights. 152 6.50% PREFERRED STOCK 6.75% QUIPS 8.75% MIPS SQUIDS -----  
----- Listing and Trading..... The 6.50% Preferred The 6.75% QUIPS are The 8.75% MIPS are Application has Stock is listed on listed on the NYSE. listed on the NYSE. been made to list the NYSE. To the To the extent 6.75% To the extent the SQUIDS on the extent shares of QUIPS are tendered shares of the 8.75% NYSE under the the 6.50% Preferred and accepted in the MIPS are tendered symbol [ ]. The Stock are tendered exchange offers, and accepted in the SQUIDS are expected and accepted in the liquidity and exchange offers, to trade "flat." exchange offers, trading market for the liquidity and This means that the the liquidity and shares of the 6.75% trading market for SQUIDS trade at trading market for QUIPS outstanding shares of the 8.75% prices that will shares of the 6.50% following the MIPS outstanding include accrued and Preferred Stock exchange offers, following the unpaid dividends outstanding and the terms upon exchange offers, and purchasers will following the which such shares and the terms upon not receive any exchange offers, could be sold, which such shares accrued and unpaid and the terms upon could be adversely could be sold, interest on the which such shares affected. could be adversely SQUIDS that is not could be sold, affected. included in the could be adversely trading price. affected. The SQUIDS will constitute a

new issue of securities of United States Steel with no established trading market. The liquidity of the SQUIDS will be affected by a number of factors described on page 22. There can be no assurance that an active market for the SQUIDS will develop or, if developed, will be sustained in the future. Dividends Received Dividends on the Distributions on Distributions on Interest payments Deduction..... 6.50% Preferred the 6.75% QUIPS are the 8.75% MIPS are on the SQUIDS will Stock are eligible not eligible for not eligible for not be eligible for for the dividends the dividends the dividends the dividends received deduction received deduction received deduction received deduction for corporate for corporate for corporate for corporate holders for federal holders for federal holders for federal holders for federal income tax income tax income tax income tax purposes. purposes. purposes. purposes. 153 CERTAIN FEDERAL INCOME TAX CONSIDERATIONS General In this section, we describe the material U.S. federal income tax consequences of the exchange offers and the receipt, ownership and disposition of SQUIDS. This summary is based on (1) the Code, (2) income tax regulations (proposed and final) issued under the Code (the "Treasury Regulations"), and (3) associated administrative and judicial interpretations, all as they currently exist as of the date of this prospectus. Such income tax laws, however, may change at any time, and any change could be retroactive to the issuance date of the SQUIDS. This discussion applies only to those persons who hold Outstanding Securities as capital assets (as defined in section 1221 of the Code) and who receive SQUIDS pursuant to the exchange offers and will hold such SQUIDS as capital assets. It does not address the tax consequences to taxpayers who are subject to special rules (such as dealers in securities or currencies, financial institutions, tax-exempt organizations, or insurance companies), taxpayers with a functional currency other than the U.S. dollar, or taxpayers who hold Outstanding Securities as a position in a straddle, as part of a synthetic security or hedge, as part of a conversion transaction or other integrated investment, or as other than a capital asset. If a partnership holds SQUIDS, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. As used herein, the term "U.S. Holder" means a person who is (i) a citizen or resident of the U.S., (ii) a corporation, partnership or other entity created or organized in or under the laws of the U.S. or any political subdivision thereof, (iii) an estate, if U.S. federal income taxation is applicable to the income of such estate regardless of its source, or (iv) a trust if (A) a U.S. court is able to exercise primary supervision over the trust's administration and (B) one or more U.S. persons have the authority to control all of the trust's substantial decisions. The term "Non-U.S. Holder" means a holder that is not a U.S. Holder. This discussion of material U.S. federal income tax considerations is for general information purposes only and does not constitute legal advice. Holders of Outstanding Securities are urged to consult their own tax advisors regarding the federal, state, local, and foreign tax consequences of the exchanges described herein and the receipt, ownership, and disposition of SQUIDS and the effect of possible changes in federal and other tax laws that may affect the tax consequences described herein. Consequences to U.S. Holders Tax Consequences of the Exchange Offers Exchange of SQUIDS for 6.50% Preferred Stock The exchange of SQUIDS for shares of 6.50% Preferred Stock plus the cash payment amount, if any, (the "6.50% Preferred Stock Exchange") will be a taxable event. The U.S. federal income tax consequences of the 6.50% Preferred Stock Exchange to a U.S. Holder will vary depending on such holder's particular facts and circumstances and whether, based on such circumstances, such holder will qualify for capital gain treatment under section 302 of the Code. U.S. Holders who will not own, directly or indirectly, any other stock of USX following the 6.50% Preferred Stock Exchange will qualify for capital gain treatment under section 302 of the Code. U.S. Holders who will own, directly or indirectly, stock of USX following the exchange will qualify for capital gain treatment if (i) the 6.50% Preferred Stock Exchange is "substantially disproportionate" with respect to such holder or (ii) the 6.50% Preferred Stock Exchange is "not essentially equivalent to a dividend" with respect to such holder within the meaning of section 302(b) of the Code. An exchange will be "not essentially equivalent to a dividend" as to a particular holder if it results in a 154 meaningful reduction in such holder's direct and indirect interest in USX. Although no binding authority exists for determining whether a "meaningful reduction" has occurred, published Internal Revenue Service guidance indicates that a meaningful reduction will be deemed to have occurred if the holder owns a minimal interest in USX following the exchange, the holder has no control over the affairs of USX, and the holder's percentage equity interest in USX is reduced to some extent. U.S. Holders should consult their own tax advisors as to whether such holders are able to satisfy the foregoing tests. If a U.S. Holder qualifies for capital gain treatment with respect to the 6.50% Preferred Stock Exchange, the amount of gain or loss recognized by such holder will equal the difference between (i) the sum of (x) the cash payment amount, if any, received by such holder and (y) the fair market value (i.e., trading price), as of the Exchange Date, of the SQUIDS received by such holder in the exchange (the sum of (x) and (y) is referred to hereinafter as the "Redemption

Amount") and (ii) the holder's adjusted tax basis in the shares of 6.50% Preferred Stock surrendered in the exchange. Assuming that USX either (i) does not declare a dividend on the 6.50% Preferred Stock prior to the Exchange Date or (ii) declares a dividend on the 6.50% Preferred Stock prior to the Exchange Date and the record date for such dividend occurs after the Exchange Date, then such gain or loss will be capital gain or loss and will be treated as long-term if the holder held the 6.50% Preferred Stock surrendered in the 6.50% Preferred Stock Exchange for more than one year. The deductibility of capital losses is subject to limitations. If, however, USX declares a dividend on the 6.50% Preferred Stock prior to the Exchange Date and the record date for such dividend precedes the Exchange Date, a U.S. Holder will recognize ordinary income to the extent of the cash payment amount, and the amount of gain recognized will be reduced (or the amount of loss recognized will be increased) by the same amount. If a U.S. Holder does not qualify for capital gain treatment with respect to the 6.50% Preferred Stock Exchange as set forth above, the Redemption Amount will be treated as a dividend to such holder. In that case, such holder (i) will recognize ordinary income in an amount equal to the Redemption Amount received (without regard to the holder's adjusted tax basis in the shares of 6.50% Preferred Stock surrendered in the 6.50% Preferred Stock Exchange) and (ii) will not recognize any loss resulting from the 6.50% Preferred Stock Exchange. Corporate holders should consult their tax advisors concerning the availability of the corporate dividends received deduction and the possible application of the extraordinary dividend rules of section 1059 of the Code in the event that the distribution is taxable as a dividend to such corporate holder. A U.S. Holder will have an adjusted tax basis in the SQUIDS received in the 6.50% Preferred Stock Exchange equal to the fair market value of the SQUIDS, and the U.S. Holder's holding period for the SQUIDS will commence on the day after the Exchange Date.

**Exchange of SQUIDS for 6.75% QUIPS** The U.S. federal income tax consequences of a U.S. Holder's exchange of SQUIDS for 6.75% QUIPS (the "6.75% QUIPS Exchange") will vary depending on whether the exchange is taxable or is treated as part of a recapitalization, which generally is a tax-free transaction. In either case, any amount that is received for accrued and unpaid interest generally will be taxable to a U.S. Holder as ordinary income in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes, provided that such holder did not previously include such interest in income. Under the Code, the 6.75% QUIPS Exchange will be treated as a recapitalization if both the 6.75% QUIPS and the SQUIDS constitute "securities" of USX within the meaning of the provisions of the Code governing reorganizations. Such characterization will depend upon the facts and circumstances surrounding the origin and nature of such instruments and upon the interpretation of numerous judicial decisions. Given the terms of the 6.75% QUIPS and the SQUIDS, both the 6.75% 155 QUIPS and the SQUIDS should be considered securities of USX for U.S. federal income tax purposes, and, consequently, the 6.75% QUIPS Exchange should qualify as a tax-free recapitalization. Assuming that the 6.75% QUIPS Exchange constitutes a recapitalization, a U.S. Holder will receive an adjusted tax basis in the SQUIDS equal to the U.S. Holder's adjusted tax basis in the 6.75% QUIPS exchanged therefor, and the U.S. Holder's holding period for the SQUIDS will include the period in which the U.S. Holder held the 6.75% QUIPS. If the 6.75% QUIPS Exchange does not constitute a recapitalization, a U.S. Holder generally will recognize gain or loss on the 6.75% QUIPS Exchange equal to the difference between (i) the fair market value (i.e., trading price) of the SQUIDS received as of the Exchange Date and (ii) the U.S. Holder's adjusted tax basis in the 6.75% QUIPS. A U.S. Holder will have an adjusted tax basis in the SQUIDS equal to the fair market value of the SQUIDS, and the U.S. Holder's holding period for the SQUIDS will commence on the day after the Exchange Date. Any gain or loss recognized by a U.S. Holder generally will be long-term capital gain or loss if the U.S. Holder has held the 6.75% QUIPS for more than one year. The deductibility of capital losses is subject to limitations. Under the market discount rules, however, any gain recognized by a U.S. Holder will be ordinary income to the extent of the accrued market discount that has not previously been included in income. See "-- Ownership of SQUIDS--Market Discount" on page 157.

**Exchange of SQUIDS for 8.75% MIPS** The U.S. federal income tax consequences of a U.S. Holder's exchange of SQUIDS for 8.75% MIPS (the "8.75% MIPS Exchange") will vary depending on whether the exchange is taxable or is treated as part of a recapitalization, which generally is a tax-free transaction. In either case, any amount that is received for accrued and unpaid interest generally will be taxable to a U.S. Holder as ordinary income in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes, provided that such holder did not previously include such interest in income. The 8.75% MIPS Exchange should be a taxable event. Assuming that the 8.75% MIPS Exchange is taxable, a U.S. Holder generally will recognize gain or loss on the 8.75% MIPS Exchange equal to the difference between (i) the fair market value (i.e., trading price) of the SQUIDS received as of the Exchange Date and (ii) the U.S. Holder's adjusted tax basis in the 8.75% MIPS. A U.S. Holder will have an adjusted

tax basis in the SQUIDS equal to the fair market value of the SQUIDS, and the U.S. Holder's holding period for the SQUIDS will commence on the day after the Exchange Date. Any gain or loss recognized by a U.S. Holder generally will be long-term capital gain or loss if the U.S. Holder has held the 8.75% MIPS for more than one year. The deductibility of capital losses is subject to limitations. If the 8.75% MIPS Exchange constitutes a recapitalization, a U.S. Holder will have an adjusted tax basis in the SQUIDS equal to the U.S. Holder's adjusted tax basis in the 8.75% MIPS exchanged therefor, and the U.S. Holder's holding period for the SQUIDS will include the period in which the U.S. Holder held the 8.75% MIPS. Ownership of SQUIDS Stated Interest Payments of stated interest on the SQUIDS generally will be taxable to a U.S. Holder as ordinary income when received or accrued in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Original Issue Discount SQUIDS will be issued with original issue discount ("OID") if the stated principal amount due at maturity exceeds its issue price by more than a statutorily-defined de minimis amount, which is an amount less than 0.25% of the stated principal amount due at maturity multiplied by the number of complete years to maturity. The issue price of the SQUIDS generally will be equal to the fair market value (i.e., trading price) of the SQUIDS on the issue date, which will be the Exchange Date. If the SQUIDS are issued with OID, holders will be required to include OID in ordinary income over the period that they hold the SQUIDS in advance of the receipt of the cash attributable thereto. The amount of OID to be included in income will be determined using a constant yield method. Any amount of OID included in income will increase a holder's adjusted tax basis in the SQUIDS. If the SQUIDS are issued with OID and at the Exchange Date a U.S. Holder has an adjusted tax basis in the SQUIDS that is in excess of the issue price but is equal or less than the principal amount, then the U.S. Holder has acquisition premium which may be used to offset some or all of the OID that would otherwise accrue on the SQUIDS. If the U.S. Holder has an adjusted tax basis in the SQUIDS that is equal to or greater than the principal amount, there will be no OID. Bond Premium If at the Exchange Date a U.S. Holder has an adjusted tax basis in the SQUIDS in excess of the principal amount, the U.S. Holder will have "bond premium" equal to the amount of such excess. Bond premium is amortizable at the election of the holder as an offset to interest income as provided in applicable Treasury Regulations. The U.S. Holder's adjusted tax basis in the SQUIDS will be reduced by the amount of the amortized bond premium. Bond premium on SQUIDS held by a U.S. Holder who does not elect to amortize the premium will remain in the U.S. Holder's adjusted tax basis for the SQUIDS and thus will decrease the gain or increase the loss otherwise recognized on the disposition of the SQUIDS. Market Discount In the event that the 6.75% QUIPS Exchange or 8.75% MIPS Exchange constitutes a tax-free recapitalization, the following market discount rules may apply to a U.S. Holder participating in such exchanges. If at the Exchange Date, such U.S. Holder has an adjusted tax basis in the SQUIDS that is less than the principal amount (or, if the SQUIDS are issued with OID, the issue price of the SQUIDS), and such discount is greater than a statutorily-defined de minimis amount, then the SQUIDS may have market discount. A U.S. Holder will recognize as ordinary income the amount of such market discount treated as accrued upon disposition or redemption of the SQUIDS, unless the U.S. Holder elects to recognize the accrued amount of such market discount ratably over the term of the SQUIDS. A U.S. Holder's election to recognize the accrued amount of market discount in income ratably over the term of the SQUIDS will apply to all market discount obligations acquired by the U.S. Holder on or after the first taxable year to which such U.S. Holder's election applies and may not be revoked without the consent of the Internal Revenue Service. Disposition of SQUIDS A U.S. Holder of SQUIDS generally will recognize gain or loss on the sale, exchange, redemption, or other disposition of SQUIDS in an amount equal to the difference between the amount realized from the disposition of the SQUIDS (not including any amounts attributable to accrued and unpaid interest) and the holder's adjusted tax basis in the SQUIDS. A U.S. Holder's adjusted tax basis generally will be equal to the initial adjusted tax basis in the SQUIDS at the Exchange Date (1) increased by any amount of OID included in income and market discount recognized and (2) decreased by any amount of bond premium previously amortized or any amount received as accrued interest treated as a return of capital. Gain or loss recognized by a U.S. Holder on the sale, exchange, retirement, or other taxable disposition of the SQUIDS generally will be long-term capital gain or loss if the SQUIDS were held for more than one year. The deductibility of capital losses is subject to limitations. The Separation will not result in a taxable exchange of the SQUIDS. 157 Consequences to Non-U.S. Holders Tax Consequences of the Exchange Offers If a Non-U.S. Holder exchanges 6.50% Preferred Stock for SQUIDS and does not prove, in a manner satisfactory to the withholding agent, that such Non-U.S. Holder qualified for capital gain treatment on the 6.50% Preferred Stock Exchange, the withholding agent will treat the issuance of SQUIDS to the Non- U.S. Holder as a dividend distribution. If USX declares a dividend on the 6.50% Preferred Stock and the record date for such dividend precedes the Exchange Date,

the withholding agent will treat the cash payment amount to such Non-U.S. Holder as a dividend distribution. See "--Consequences to U.S. Holders--Tax Consequences of the Exchange Offers--Exchange of SQUIDS for 6.50% Preferred Stock" on page 154. In general, Non-U.S. Holders will be subject to a withholding tax of 30% on U.S. source dividends. The rate of withholding may be reduced by an income tax treaty applicable to the Non-U.S. Holder, provided that the Non-U.S. Holder qualifies for such treaty relief and provides a properly executed IRS Form W-8BEN (or substitute form) claiming an exemption from or reduction in the rate of withholding under an applicable tax treaty. A Non-U.S. Holder that recognizes gain on the 6.50% Preferred Stock Exchange (if qualifying for capital gain treatment under section 302 of the Code), the 6.75% QUIPS Exchange, and the 8.75% MIPS Exchange generally will not be subject to U.S. federal income tax unless one of the following applies: . The gain is connected with a trade or business that the Non-U.S. Holder conducts in the U.S.; . The Non-U.S. Holder is an individual, is present in the U.S. for at least 183 days during the year in which the holder disposes of the SQUIDS and certain other conditions are satisfied; or . Either the 6.75% QUIPS Exchange or the 8.75% MIPS Exchange, as the case may be, is part of a plan to avoid tax and the gain represents accrued interest (including OID), in which case the rules for interest would apply.

**Ownership of SQUIDS Withholding Taxes Generally,** payments of principal and interest (including OID) on SQUIDS will not be subject to U.S. withholding taxes provided that: . The Non-U.S. Holder does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of the Company entitled to vote, . The Non-U.S. Holder is not a controlled foreign corporation that is related to the Company through its stock ownership, . The Non-U.S. Holder is not a bank described in section 881(c)(3)(A) of the Code, and . Either (A) the Non-U.S. Holder provides its name and address on an IRS Form W-8BEN (or substitute form), and certifies, under penalties of perjury, that it is not a U.S. Holder or (B) it holds its SQUIDS through certain foreign intermediaries and it satisfies the certification requirements of applicable Treasury regulations. Special certification rules apply to certain Non-U.S. Holders that are entities rather than individuals. If a Non-U.S. Holder cannot satisfy the requirements described above, payments of interest (including OID) made to the Non-U.S. Holder will be subject to U.S. federal withholding tax, unless the Non-U.S. Holder provides a properly executed (1) IRS Form W-8BEN (or substitute form) claiming an exemption from or reduction in the rate of withholding under an applicable tax treaty or (2) IRS Form W-8ECI (or successor form) stating that interest paid on the SQUIDS is not subject to withholding because it is effectively connected with the conduct of the Non-U.S. Holder's trade or business in the U.S.

**158 Sale or Redemption of SQUIDS** If a Non-U.S. Holder sells SQUIDS or the SQUIDS are redeemed, the Non-U.S. Holder will not be subject to U.S. federal income tax on any gain unless one of the following applies: . The gain is connected with a trade or business that the Non-U.S. Holder conducts in the U.S. . The Non-U.S. Holder is an individual, is present in the U.S. for at least 183 days during the year in which the holder disposes of the SQUIDS and certain other conditions are satisfied. . The sale of the SQUIDS is part of a plan to avoid tax and the gain represents accrued interest (including OID), in which case the rules for interest would apply.

**U.S. Trade or Business** If a Non-U.S. Holder holds the SQUIDS in connection with a trade or business that is conducted in the U.S.: . Any interest on the SQUIDS, and any gain from a disposition of the SQUIDS, generally will be subject to U.S. federal income tax as if the Non-U.S. Holder were a U.S. Holder. . If the Non-U.S. Holder is a corporation, it may be subject to the "branch profits tax" on its earnings that are connected with the holder's U.S. trade or business, including earnings from the SQUIDS. This tax generally is imposed at a 30% rate but may be reduced or eliminated by an applicable tax treaty.

**Backup Withholding** If an individual U.S. Holder receives payments of interest, backup withholding will not apply if such holder provides a taxpayer identification number to the withholding agent. The exemption from backup withholding does not apply if the withholding agent or an intermediary knows or has reason to know that the holder should be subject to backup withholding. If an individual Non-U.S. Holder is not subject to U.S. withholding tax (other than backup withholding) as discussed above, or is subject to a reduced rate of withholding under an applicable tax treaty as a result of providing a properly executed IRS Form W-8BEN, backup withholding will not apply. Proceeds from the sale of SQUIDS by an individual Non-U.S. Holder will not be subject to backup withholding by a broker if the broker can associate payment of the proceeds with documentation upon which it can rely to treat its customer as foreign. Holders which are U.S. corporations are not subject to backup withholding. Holders which are classified as foreign corporations under U.S. federal income tax principles generally are not subject to backup withholding if certain documentary evidence indicating that the entity is treated as a corporation under U.S. federal income tax laws has been provided or if under applicable regulations the entity must be classified as a corporation.

**Information Reporting** If an individual U.S. Holder receives payments of interest, information reporting generally will apply. Information reporting generally does

not apply to payments to U.S. corporations. If a Non-U.S. Holder receives payments of interest, information reporting will generally apply. Where the payments can be reliably associated with a payment to a Non-U.S. Holder, information reporting on Form 1042-S generally will apply. Information reporting with respect to a Non-U.S. Holder does not apply if the Non-U.S. Holder holds SQUIDS directly through a qualified intermediary and required procedures are satisfied. In general, a Non-U.S. Holder will not be subject to information reporting by brokers with respect to the proceeds received from the sale of SQUIDS if prior to payment of the proceeds the broker can associate the payment with documentation upon which it can rely to treat the customer as a foreign person.

**159 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS** The following table furnishes information concerning all persons known to USX as of September 30, 2001 to beneficially own five percent or more of any class of the voting stock of USX: Name and Address of Beneficial Amount and Nature of Percent of Class Owner Beneficial Ownership Class ----- Marathon Wellington Management Company, LLP 15,562,200(1) 5.05(1) Group 75 State Street Shares Boston, MA 02109 ----- (1) Based on Schedule 13G dated February 14, 2001 which indicates that Wellington Management Company, LLP had sole voting power over no shares, shared voting power over 762,600 shares, sole dispositive power over no shares and shared dispositive power over 15,562,200 shares.

**SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS** The following table sets forth the number of shares of each class of USX common stock beneficially owned as of June 30, 2001 by each director, by each executive officer and by all directors and executive officers as a group. No director or executive officer beneficially owned, as of June 30, 2001, any equity securities of USX other than those shown.

U. S. Marathon Steel Group Group Name Shares	Shares	-----	Neil A. Armstrong(1).....	14,112
4,811 Clarence P. Cazalot, Jr.(2)(3).....	576,217	69,054	J. Gary Cooper(1)(2).....	
3,410 1,816 Charles A. Corry(1)(2)(3).....	3,923	81,337	Robert M. Hernandez(2)(3)(4).....	643,098
315,010 Shirley Ann Jackson(1)(2).....	2,806	1,771	Charles R. Lee(1).....	13,781
5,388 Paul E. Lego(1)(2).....	11,083	3,727	John F. McGillicuddy(1).....	13,349
4,482 Dan D. Sandman(2)(3).....	275,498	166,217	Seth E. Schofield(1)(2).....	8,810
3,780 John W. Snow(1).....	7,007	3,010	Thomas J. Usher(2)(3).....	1,273,154
879,595 Douglas C. Yearley(1).....	3,871,179	3,089,472	----- (1) Includes Common Stock Units credited under the USX Corporation Deferred Compensation Plan for Non-Employee Directors as follows: Marathon Group U. S. Steel Group Common Stock Units	
Common Stock Units -----	Neil A. Armstrong.....	12,612	4,511	J. Gary Cooper.....
2,378	770	Charles A. Corry.....	3,923	1,377
Shirley Ann Jackson.....	1,790	746	Charles R. Lee.....	11,781
4,188	Paul E. Lego.....	9,481	3,401	John F. McGillicuddy.....
11,349	4,082	Seth E. Schofield.....	7,690	2,636
John W. Snow.....	6,007	2,010	Douglas C. Yearley.....	7,269
2,596	160	(2) Includes shares held under the USX Savings Fund Plan, the Marathon Thrift Plan, the USX Dividend Reinvestment and Direct Stock Purchase Plans and the 1990 Stock Plan. (3) Includes shares which may be acquired upon exercise of outstanding options as follows (all options other than those granted on May 29, 2001 are currently exercisable): Mr. Usher: Marathon Group Shares 1,101,100, U. S. Steel Group Shares 781,400; Mr. Sandman: Marathon Group Shares 218,400, U. S. Steel Group Shares 142,325; Mr. Cazalot: Marathon Group Shares 520,000, U. S. Steel Group Shares 55,000; Mr. Hernandez: Marathon Group Shares 562,625, U.S. Steel Group Shares 282,625; Mr. Corry: U. S. Steel Group Shares 80,000; and all directors and executive officers as a group: Marathon Group Shares 3,179,220, U. S. Steel Group Shares 2,688,705. (4) As of January 31, 2001 the United States Steel and Carnegie Pension Fund, trustee of the United States Steel Corporation Plan for Employee Pension Benefits and the United States Steel Corporation Plan for Non-Union Employee Pension Benefits, owned 587,680 shares of the Marathon Group Shares. This stock was received in exchange for common stock of Texas Oil & Gas Corp. Mr. Hernandez is chairman and one of seven members of the Investment Committee of the trustee. The board of directors of the trustee has by formal resolution delegated sole power to vote and dispose of such stock to a subcommittee of the Investment Committee which is composed of members who are not officers or employees of USX. Mr. Hernandez disclaims beneficial ownership of such stock. (5) Total shares beneficially owned in each case constitute less than one percent of the outstanding shares of each class except that all directors and executive officers as a group own 1.25 percent of the Marathon Group Shares and 3.47 percent of the U. S. Steel Group Shares.		

**LEGAL MATTERS** Certain legal matters with respect to the SQUIDS and the exchange offers will be



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----- (Dollars in millions) ASSETS		Current assets: Cash and cash equivalents.....		\$ 219	\$ 22
Receivables, less allowance for doubtful accounts of \$57 and \$10.....	625	486	Receivables subject to a security interest (Note 11).....	350	350
Inventories (Note 14).....	946	743	Deferred income tax benefits (Note 15).....	201	281
Other current assets.....	10	--	----- Total current assets.....		
Investments and long-term receivables, less reserves of \$38 and \$3 (Note 16).....	439	475	Long-term receivables from related parties (Note 13)...	97	97
Property, plant and equipment--net (Note 21).....	2,739	2,516	Prepaid pensions (Note 12).....	2,672	2,404
Other noncurrent assets.....	47	52	----- Total assets.....		
\$ 8,711		\$ 7,525		=====	
LIABILITIES		Current liabilities: Notes payable.....		\$ 70	\$ --
Accounts payable.....	755	751	Accounts payable to related parties (Note 13).....	5	6
Payroll and benefits payable.....	202	322	Accrued taxes.....	173	177
Accrued interest.....	47	15	Long-term debt due within one year (Note 11).....	139	13
----- Total current liabilities.....			1,391	1,284	Long-term debt (Note 11).....
Deferred income taxes (Note 15).....	666	348	Employee benefits (Note 12).....	1,767	2,245
Preferred stock of subsidiary (Note 10).....	66	66	Mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely junior subordinated convertible debentures of USX (Note 18)..	183	183
EQUITY (Note 19) Preferred stock.....	2	3	USX's net investment.....	1,950	2,073
Deferred compensation.....	(3)	--	Accumulated other comprehensive income (loss).....	(30)	(20)
----- Total equity.....			1,919	2,056	----- Total liabilities and equity.....
\$ 8,711		\$ 7,525		=====	

The accompanying notes are an integral part of these combined financial statements. F-4 UNITED STATES STEEL COMBINED STATEMENT OF CASH FLOWS 2000 1999 1998 -----

----- (Dollars in millions) Increase (decrease) in cash and cash equivalents		Operating activities: Net income (loss).....		\$ (21)	\$ 44	\$ 364
Adjustments to reconcile to net cash provided from (used in) operating activities: Extraordinary losses.....	--	7	Depreciation, depletion and amortization.....	360	304	283
Pensions and other postretirement benefits.....	(847)	(256)	(215)	Deferred income taxes.....	389	107
158	Net gains on disposal of assets.....	(46)	(21)	(54)	Changes in: Current receivables--sold.....	--
(320)	(30)	--	operating turnover.....	(263)	(242)	232
Inventories.....	(63)	(14)	7	Current accounts payable and accrued expenses.....	(262)	239
(285)	All other--net.....	126	72	(80)	----- Net cash provided from (used in) operating activities.....	
(627)	(80)	380	----- Investing activities: Capital expenditures.....			
(244)	(287)	(310)	Acquisition of U. S. Steel Kosice s.r.o., net of cash acquired of \$59.....	(10)	--	--
Disposal of assets.....	21	10	21	Restricted cash--withdrawals.....	2	15
35	--	deposits.....	(2)	(17)	(35)	Investees--investments.....
(35)	(15)	(73)	--	loans and advances.....	(10)	--
(1)	All other--net.....	8	--	14	----- Net cash used in investing activities.....	
(270)	(294)	(349)	----- Financing activities (Note 10): Increase in attributed portion of USX consolidated debt.....			
1,208	147	13	Specifically attributed debt: Borrowings.....	--	--	55
Preferred stock repurchased.....	(12)	(2)	(8)	Dividends paid.....	(97)	(97)
(96)	----- Net cash provided from (used in) financing activities.....			1,093	387	(40)
----- Effect of exchange rate changes on cash.....		1		----- Net increase (decrease) in cash and cash equivalents....		
197	13	(9)	Cash and cash equivalents at beginning of year.....	22	9	18
----- Cash and cash equivalents at end of year.....		\$ 219		\$ 22		\$ 9

===== See Note 9, for supplemental cash flow information. The accompanying notes are an integral part of these combined financial statements. F-5 UNITED STATES STEEL

NOTES TO COMBINED FINANCIAL STATEMENTS 1. Basis of Presentation The accompanying combined financial statements represent a carve-out financial statement presentation of the businesses comprising United States Steel, and are not intended to be a complete presentation of the financial position, the results of operations and cash flows of United States Steel on a stand-alone basis. These combined financial statements are presented as if United States Steel existed as an entity separate from the remaining businesses of USX Corporation (USX) during the periods presented. The allocations and estimates included in these combined financial statements are determined using the

methodologies described in Note 4. United States Steel through its Domestic Steel segment, is engaged in the production, sale and transportation of steel mill products, coke, taconite pellets and coal; the management of mineral resources; real estate development; engineering and consulting services and, through its U.S. Steel Kosice segment, primarily located in the Slovak Republic, in the production and sale of steel mill products and coke for the central European market. Most businesses within the Domestic Steel segment are divisions of USX. Certain business activities are conducted through joint ventures and partially owned companies, such as USS-POSCO Industries, PRO-TEC Coating Company, Clairton 1314B Partnership, Republic Technologies International LLC and Rannila Kosice s.r.o. The accompanying combined financial statements include the historical operations of certain divisions of USX and certain subsidiaries of USX. In this context, no direct ownership existed among all the various units comprising United States Steel; accordingly, USX's net investment in United States Steel (USX's net investment) is shown in lieu of Common Stockholder's Equity in the combined financial statements. The combined financial statements included herein have been prepared from USX's historical accounting records.

**2. Summary of Principal Accounting Policies**

**Principles applied in consolidation--**Investments in entities over which United States Steel has significant influence are accounted for using the equity method of accounting and are carried at United States Steel's share of net assets plus loans and advances. Investments in companies whose stock is publicly traded are carried generally at market value. The difference between the cost of these investments and market value is recorded in other comprehensive income (net of tax). Investments in companies whose stock has no readily determinable fair value are carried at cost. Income from investees includes United States Steel's proportionate share of income from equity method investments. Also, gains or losses from a change in ownership of an unconsolidated investee are recognized in the period of change. Use of estimates--Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the carrying value of long-lived assets; valuation allowances for receivables, inventories and deferred income tax assets; environmental liabilities; liabilities for potential tax deficiencies and potential litigation claims and settlements; and assets and obligations related to employee benefits. Additionally, certain estimated liabilities are recorded when management commits to a plan to close an operating facility or to exit a business activity. Actual results could differ from the estimates and assumptions used.

**F-6 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)**

**Revenue recognition--**Revenues are recognized generally when products are shipped or services are provided to customers, the sales price is fixed and determinable, and collectibility is reasonably assured. Costs associated with revenues, including shipping and other transportation costs, are recorded in cost of revenues. Cash and cash equivalents--Cash and cash equivalents include cash on hand and on deposit and investments in highly liquid debt instruments with maturities generally of three months or less. Inventories--Inventories are carried at lower of cost or market. Cost of inventories is determined primarily under the last-in, first-out (LIFO) method. Derivative instruments--United States Steel uses commodity-based derivative instruments to manage its exposure to price risk. Management is authorized to use futures, forwards, swaps and options related to the purchase of natural gas, refined products and nonferrous metals used in steel operations. Recorded deferred gains or losses are reflected within other current and noncurrent assets or accounts payable and deferred credits and other liabilities, as appropriate. Long-lived assets--Depreciation is generally computed using a modified straight-line method based upon estimated lives of assets and production levels. The modification factors for domestic steel producing assets range from a minimum of 85% at a production level below 81% of capability, to a maximum of 105% for a 100% production level. No modification is made at the 95% production level, considered the normal long-range level. Depletion of mineral properties is based on rates which are expected to amortize cost over the estimated tonnage of minerals to be removed. United States Steel evaluates impairment of its long-lived assets on an individual asset basis or by logical groupings of assets. Assets deemed to be impaired are written down to their fair value, including any related goodwill, using discounted future cash flows and, if available, comparable market values. When long-lived assets depreciated on an individual basis are sold or otherwise disposed of, any gains or losses are reflected in income. Gains on disposal of long-lived assets are recognized when earned, which is generally at the time of closing. If a loss on disposal is expected, such losses are recognized when long-lived assets are reclassified as assets held for sale. Proceeds from disposal of long-lived assets depreciated on a group basis are credited to accumulated depreciation, depletion and amortization with no immediate effect on income. Major maintenance activities--United States Steel incurs planned major maintenance costs primarily

for blast furnace relines. Such costs are separately capitalized in property, plant and equipment and are amortized over their estimated useful life, which is generally the period until the next scheduled reline. Environmental remediation--United States Steel provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. Generally, the timing of remediation accruals coincides with completion of a feasibility study or the commitment to a formal plan of action. Remediation liabilities are accrued based on estimates of known environmental exposure and are discounted in certain instances.

Postemployment benefits--United States Steel recognizes an obligation to provide postemployment benefits, primarily for disability-related claims covering indemnity and medical payments to certain employees. The obligation for these claims and the related periodic costs are F-7 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) measured using actuarial techniques and assumptions, including an appropriate discount rate, analogous to the required methodology for measuring pension and other postretirement benefit obligations. Actuarial gains and losses are deferred and amortized over future periods. Insurance--United States Steel is insured for catastrophic casualty and certain property and business interruption exposures, as well as those risks required to be insured by law or contract. Costs resulting from noninsured losses are charged against income upon occurrence. 3.

New Accounting Standards In the fourth quarter of 2000, United States Steel adopted the following accounting pronouncements primarily related to the classification of items in the financial statements. The adoption of these new pronouncements had no net effect on the financial position or results of operations of United States Steel, although they required reclassifications of certain amounts in the financial statements, including all prior periods presented. . In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 (SAB 101) "Revenue Recognition in Financial Statements," which summarizes the SEC staff's interpretations of generally accepted accounting principles related to revenue recognition and classification. . In 2000, the Emerging Issues Task Force of the Financial Accounting Standards Board (EITF) issued EITF Consensus No. 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," which addresses whether certain items should be reported as a reduction of revenue or as a component of both revenues and cost of revenues, and EITF Consensus No. 00-10 "Accounting for Shipping and Handling Fees and Costs," which addresses the classification of costs incurred for shipping goods to customers. . In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. United States Steel adopted certain recognition and reclassification provisions of SFAS 140, which were effective for fiscal years ending after December 15, 2000. The remaining provisions of SFAS 140 are effective after March 31, 2001. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which later was amended by SFAS Nos. 137 and 138. This Standard requires recognition of all derivatives as either assets or liabilities at fair value. Changes in fair value will be reflected in either current period net income or other comprehensive income, depending on the designation of the derivative instrument. United States Steel may elect not to designate a derivative instrument as a hedge even if the strategy would be expected to qualify for hedge accounting treatment. The adoption of SFAS No. 133 will change the timing of recognition for derivative gains and losses as compared to previous accounting standards. United States Steel will adopt the Standard effective January 1, 2001. The transition adjustment resulting from the adoption of SFAS No. 133 will be reported as a cumulative effect of a change in accounting principle. The transition adjustment for United States Steel is expected to be immaterial. F-8 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL

STATEMENTS--(Continued) The amounts reported as other comprehensive income will be reflected in net income when the anticipated physical transactions are consummated. It is not possible to estimate the effect that this Standard will have on future results of operations. 4. Corporate Activities Financial activities--As a matter of policy, USX manages most financial activities on a centralized, consolidated basis. Such financial activities include the investment of surplus cash; the issuance, repayment and repurchase of short-term and long-term debt; the issuance, repurchase and redemption of preferred stock; and the issuance and repurchase of common stock. Transactions related primarily to invested cash, short-term and long-term debt (including convertible debt), related net interest and other financial costs, and preferred stock and related dividends are attributed to United States Steel based upon its cash flows for the periods presented and its initial capital structure. Most financing transactions are not specifically attributed to United States Steel but represent attributed amounts of USX's financial activities. See Note 10, for United States Steel's

attributed portion of USX's financial activities. However, transactions such as leases, certain collateralized financings, certain indexed debt instruments, financial activities of consolidated entities which are less than wholly owned by USX and transactions related to securities convertible solely into USX-U. S. Steel Group Common Stock are or will be specifically attributed to and reflected in their entirety in the financial statements of United States Steel. Corporate general and administrative costs--Corporate general and administrative costs are allocated to United States Steel by USX based upon utilization or other methods management believes to be reasonable and which consider certain measures of business activities, such as employment, investments and revenues. The costs allocated to United States Steel were \$25 million in 2000, \$17 million in 1999 and \$24 million in 1998, and primarily consist of employment costs including pension effects, professional services, facilities and other related costs associated with corporate activities. Income taxes--All members of the USX affiliated group are included in the consolidated United States federal income tax return filed by USX. Accordingly, the provision for federal income taxes and the related payments or refunds of tax are determined on a consolidated basis. The consolidated provision and the related tax payments or refunds have been reflected in the United States Steel financial statements in accordance with USX's tax allocation policy. In general, such policy provides that the consolidated tax provision and related tax payments or refunds are allocated to United States Steel for financial statement purposes, based upon its financial income, taxable income, credits, preferences, and other directly related amounts. For tax provision and settlement purposes, tax benefits resulting from attributes (principally net operating losses and various tax credits), which cannot be utilized by United States Steel on a separate return basis but which can be utilized on a consolidated basis in that year or in a carryback year, are allocated to United States Steel if it generated the attributes. To the extent that United States Steel is allocated a consolidated tax attribute which, as a result of expiration or otherwise, is not ultimately utilized on the consolidated tax return, the prior years' allocation of such attribute is adjusted such that the effect of the expiration is borne by United States Steel if it generated the attribute. Also, if a tax attribute cannot be utilized on a consolidated basis in the year generated or in a carryback year, the prior years' allocation of such consolidated tax effects is adjusted in a subsequent year to the extent necessary to allocate the tax benefits to United States Steel if it would have realized the tax benefits on a separate return basis. As a result, the allocated amounts of taxes payable or refundable are not necessarily comparable to those that would have resulted if United States Steel had filed its own separate tax returns. F-9 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) 5.

Business Combination On November 24, 2000, United States Steel acquired U. S. Steel Kosice s.r.o. (USSK), which is located in the Slovak Republic. USSK was formed in June 2000 to hold the steel operations and related assets of VSZ a.s. (VSZ), a diversified Slovak corporation. The cash purchase price was \$69 million. Additional payments to VSZ of not less than \$25 million and up to \$75 million are contingent upon the future performance of USSK. Additionally, \$325 million of debt was included with the acquisition. The acquisition was accounted for under the purchase method of accounting. The 2000 results of operations include the operations of USSK from the date of acquisition. Prior to this transaction, United States Steel and VSZ were equal partners in VSZ U. S. Steel s.r.o. (VSZUSS), a tin mill products manufacturer. The assets of USSK included VSZ's interest in VSZUSS. The acquisition of the remaining interest in VSZUSS was accounted for under the purchase method of accounting. Previously, United States Steel had accounted for its investment in VSZUSS under the equity method of accounting. The following unaudited pro forma data for United States Steel includes the results of operations of USSK for 2000 and 1999, giving effect to the acquisition as if it had been consummated at the beginning of the years presented. The pro forma data is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations. In addition, VSZ did not historically provide carve-out financial information for its steel operations in accordance with generally accepted accounting principles in the United States. Therefore, United States Steel made certain estimates and assumptions regarding revenue and costs in the preparation of the following unaudited pro forma data.

	Year Ended December 31	-----	2000	1999	-----
----- (In millions) Revenues and other income.....	\$7,094	\$6,472			
loss.....	57	36			
Net income.....	57	29	6.		

Extraordinary Losses In 1999, United States Steel irrevocably deposited with a trustee the entire 5.5 million common shares it owned in RTI International Metals, Inc. (RTI). The deposit of the shares resulted in the satisfaction of United States Steel's obligation under its 6 3/4% Exchangeable Notes (indexed debt) due February 1, 2000. Under the terms of the indenture, the trustee exchanged one RTI share for each note at maturity. All shares were required for satisfaction of the indexed debt; therefore, none reverted back to United States Steel. As a result of the above transaction, United

States Steel recorded in 1999 an extraordinary loss of \$5 million, net of a \$3 million income tax benefit, representing prepaid interest expense and the write-off of unamortized debt issue costs, and a pretax charge of \$22 million, representing the difference between the carrying value of the investment in RTI and the carrying value of the indexed debt, which is included in net gains on disposal of assets. In 1999, Republic Technologies International, LLC, an equity investee of United States Steel, recorded an extraordinary loss related to the early extinguishment of debt. As a result, United States Steel recorded an extraordinary loss of \$2 million, net of a \$1 million income tax benefit, representing its share of the extraordinary loss.

F-10 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

7. Other Items	2000	1999	1998	----	----	----	(In millions)
Net interest and other financial costs							
Interest and other financial income:							
Interest income.....	\$ 3	\$ 1	\$ 5				
Other.....	7	--	--	----	----	----	
Total.....	10	1	5	----	----	----	
Interest and other financial costs:							
Interest incurred.....	88	45	40				Less interest
capitalized.....	3	6	6	----	----	----	Net interest.....
Total.....	91	51	46				85
Interest on tax issues.....	11	15	16				39
Financial costs on trust preferred securities.....	13	13	13				34
Financial costs on preferred stock of subsidiary.....	5	5	5				
Amortization of discounts.....	1	1	2				
Expenses on sales of accounts receivable.....	--	15	21				
Adjustment to settlement value of indexed debt.....	--	(13)	(44)				
Total.....	115	75	47	----	----	----	Net interest and other financial
costs.....	\$105	\$ 74	\$ 42	=====	=====	=====	Foreign currency transactions

For 2000, the aggregate foreign currency transaction gain included in determining net income was \$7 million. There were no foreign currency transaction gains or losses in 1999 and 1998.

8. Segment Information United States Steel consists of two reportable operating segments: 1) Domestic Steel and 2) U.S. Steel Kosice (USSK). Domestic Steel includes the United States operations of United States Steel, while USSK includes the United States Steel operations in the Slovak Republic. Domestic Steel is engaged in the domestic production and sale of steel mill products, coke and taconite pellets; the management of mineral resources; coal mining; engineering and consulting services; and real estate development and management. USSK is engaged in the production and sale of steel mill products and coke and primarily serves European markets. Segment income represents income from operations allocable to both operating segments and does not include net interest and other financial costs and provisions for income taxes. Additionally, the following items are not allocated to operating segments: . Net pension credits associated with pension plan assets and liabilities . Certain costs related to former United States Steel business activities . Allocated USX corporate general and administrative costs. These costs primarily consist of employment costs including pension effects, professional services, facilities and other related costs associated with corporate activities . Certain other items not allocated to operating segments for business performance reporting purposes (see reconciliation schedule on page F-13) Information on assets by segment is not provided as it is not reviewed by the chief operating decision maker.

F-11 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

The following represents the operations of United States Steel:

	Domestic Steel	USSK	Total	-----	----	-----	(In millions)
2000 Revenues and other income:							
Customer.....	\$5,981	\$ 92	\$6,073				Other subsidiaries of USX(a).....
Equity in losses of unconsolidated investees.....	(8)	--	(8)				17
Other.....	50	--	50	-----	----	-----	Total revenues and other income.....
Total.....	\$6,040	\$ 92	\$6,132	=====	=====	=====	Segment
income.....	\$ 23	\$ 2	\$ 25				Significant noncash items included in segment income - depreciation,
depreciation, depletion and amortization(b).....	285	4	289				Capital expenditures.....
Capital expenditures.....	239	5	244				1999 Revenues and other income:
Customer.....	\$5,519	\$--	\$5,519				Other subsidiaries of
USX(a).....	17	--	17				Equity in losses of unconsolidated investees.....
Equity in losses of unconsolidated investees.....	(43)	--	(43)				Other.....
Other.....	46	--	46	-----	----	-----	Total revenues and other income.....
Total.....	\$5,539	\$--	\$5,539	=====	=====	=====	Segment
income.....	\$ 91	\$--	\$ 91				Significant noncash items
included in segment income - depreciation, depletion and amortization.....	304	--	304				Capital
Capital expenditures(c).....	286	--	286				1998 Revenues and other income:
Customer.....	\$6,374	\$--	\$6,374				Other subsidiaries of USX(a).....
Other subsidiaries of USX(a).....	2	--	2				Equity
Equity in earnings of unconsolidated investees.....	46	--	46				in earnings of unconsolidated investees.....
Other.....	55	--	55	-----	----	-----	Total revenues and other income.....
Total.....	\$6,477	\$--	\$6,477	=====	=====	=====	Segment
income.....	\$ 517	\$--	\$ 517				Significant noncash items included in segment income -
depreciation, depletion and amortization.....	283	--	283				Capital expenditures(c).....
Capital expenditures(c).....	305	--	305				

(a) Revenues and transfers with other subsidiaries of USX were conducted under terms comparable

to those with unrelated parties. (b) Difference between segment total and United States Steel total represents amounts for impairment of coal assets. (c) Differences between segment total and United States Steel total represent amounts related to corporate administrative activities. F-12 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) The following schedules reconcile segment amounts to amounts reported in United States Steel's combined financial statements: 2000 1999 1998 ----- (In millions) Revenues and Other

Income: Revenues and other income of reportable segments..... \$6,132 \$5,539 \$6,477 Items not allocated to segments: Impairment and other costs related to an investment in an equity investee..... -- (47) -- Loss on investment in RTI stock used to satisfy indexed debt obligations..... -- (22) -- ----- Total revenues and other income..... \$6,132 \$5,470 \$6,477 ===== Income: Income for reportable segments..... \$ 25 \$ 91 \$ 517 Items not allocated to segments: Impairment of coal assets..... (71) -- -- Impairment and other costs related to an investment in an equity investee..... -- (47) -- Loss on investment in RTI stock used to satisfy indexed debt obligations..... -- (22) -- Administrative expenses..... (25) (17) (24) Net pension credits..... 266 228 186 Costs related to former businesses activities..... (91) (83) (100) ----- Total income from operations..... \$ 104 \$ 150 \$ 579 ===== Revenues by Product: 2000 1999 1998 ----- (In millions) Sheet and semi-finished steel products..... \$3,288 \$3,433 \$3,598 Tubular, plate and tin mill products..... 1,731 1,140 1,546 Raw materials (coal, coke and iron ore)..... 626 549 744 Other(a)..... 445 414 490 ----- (a) Includes revenue from the sale of steel production by-products, engineering and consulting services, real estate development and resource management. F-13 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) Geographic Area: The information below summarizes the operations in different geographic areas. Revenues and Other Income ----- Within Between Geographic Geographic Year Areas Areas Total Assets(a) ----

----- (In millions) United States..... 2000 \$6,027 \$-- \$6,027 \$2,745 1999 5,452 -- 5,452 2,889 1998 6,460 -- 6,460 3,043 Slovak Republic..... 2000 95 -- 95 376 1999 3 -- 3 60 1998 6 -- 6 66 Other Foreign Countries..... 2000 10 -- 10 10 1999 15 -- 15 3 1998 11 -- 11 3 Total..... 2000 \$6,132 \$-- \$6,132 \$3,131 1999 5,470 -- 5,470 2,952 1998 6,477 -- 6,477 3,112 ----- (a) Includes property, plant and equipment and investments. F-14 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) 9. Supplemental Cash Flow Information 2000 1999 1998 -----

----- (In millions) Cash provided from (used in) operating activities included: Interest and other financial costs paid (net of amount capitalized)..... \$ (71) \$ (77) \$ (76) Income taxes refunded (paid), including settlements with USX under the tax allocation policy..... 81 3 (29) Consolidated USX debt: Commercial paper: Issued..... \$ 3,362 \$ 6,282 \$ -- Repayments..... (3,450) (6,117) -- Credit agreements: Borrowings..... 437 5,529 17,486 Repayments..... (437) (5,980) (16,817) Other credit arrangements--net..... 150 (95) 55 Other debt: Borrowings..... -- 319 671 Repayments..... (54) (87) (1,053) ----- Total..... \$ 8 \$ (149) \$ 342 ===== Activity attributed to United States Steel..... \$ 1,208 \$ 147 \$ 13 Activity attributed to other subsidiaries of USX..... (1,200) (296) 329 ----- Total..... \$ 8 \$ (149) \$ 342 =====

Noncash investing and financing activities: Stock issued for dividend reinvestment and employee stock plans..... \$ 5 \$ 2 \$ 2 Disposal of assets: Deposit of RTI common shares in satisfaction of indexed debt..... -- 56 -- Interest in USS/Kobe contributed to Republic... -- 40 -- Other disposals of assets--notes or common stock received..... 14 1 2 Business combinations: Acquisition of USSK: Liabilities assumed..... 568 -- -- Contingent consideration payable at present value..... 21 -- -- Investee liabilities consolidated in step acquisition..... 3 -- -- Other acquisitions: Liabilities assumed..... -- 26 -- Investee liabilities consolidated in step acquisition..... -- 26 -- F-15 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) 10. Financial Activities Attributed to United States Steel The following is the portion of USX financial activities attributed to United States Steel. These amounts exclude amounts specifically attributed to United States Steel. United States Consolidated Steel USX ----- December 31 -----

2000 1999 2000 1999 ----- (In millions) Cash and cash equivalents..... \$ 171 \$ 1 \$ 364 \$ 9 Other noncurrent assets..... 3 1 7 8 ----- Total assets..... \$ 174 \$

2 \$ 371 \$ 17 ===== Notes payable..... \$ 70 \$-- \$ 150 \$ -- Accrued interest..... 45 13 95 95 Long-term debt due within one year (Note 11)..... 130 7 277 54 Long-term debt (Note 11)..... 1,804 466 3,734 3,771 Preferred stock of subsidiary..... 66 66 250 250 ----- Total liabilities..... \$2,115 \$552 \$4,506 \$4,170 ===== United States Consolidated Steel(a) USX ----- 2000 1999 1998 2000 1999 1998 ----- (In millions) Net interest and other financial costs (Note 7)..... \$59 \$39 \$29 \$309 \$334 \$324 ----- (a) United States Steel's net interest and other financial costs reflect weighted average effects of all financial activities attributed by USX. F-16 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) 11. Long-Term Debt United States Steel's portion of USX's consolidated long-term debt is as follows: United States Consolidated Steel USX ----- December 31 ----- 2000 1999 2000 1999 ----- (In millions) Specifically attributed debt(a): Receivables facility..... \$ 350 \$350 \$ 350 \$ 350 Sale-leaseback financing and capital leases..... 88 92 95 107 Other..... 3 -- 4 1 ----- Total..... 441 442 449 458 Less amount due within one year..... 9 6 10 7 ----- Total specifically attributed long-term debt.... \$ 432 \$436 \$ 439 \$ 451 ===== USX debt attributed to United States Steel(b)..... \$1,946 \$477 \$4,036 \$3,852 Less unamortized discount..... 12 4 25 27 Less amount due within one year..... 130 7 277 54 ----- Total long-term debt not specifically attributed..... \$1,804 \$466 \$3,734 \$3,771 ===== Total long-term debt due within one year..... \$ 139 \$ 13 \$ 287 \$ 61 Total long-term debt due after one year..... 2,236 902 4,173 4,222 ----- (a) As described in Note 4, certain financial activities are specifically attributed to and reflected in their entirety in the financial statements of United States Steel. (b) Long-term debt activities of USX Corporation, not specifically attributed, are attributed to United States Steel based on its cash flows. 12. Pensions and Other Postretirement Benefits United States Steel has noncontributory defined benefit pension plans covering substantially all U.S. employees. Benefits under these plans are based upon years of service and final average pensionable earnings, or a minimum benefit based upon years of service, whichever is greater. In addition, pension benefits are also provided to most U.S. salaried employees based upon a percent of total career pensionable earnings. United States Steel also participates in multiemployer plans, most of which are defined benefit plans associated with coal operations. United States Steel also has defined benefit retiree health care and life insurance plans (other benefits) covering most U.S. employees upon their retirement. Health care benefits are provided through comprehensive hospital, surgical and major medical benefit provisions or through health maintenance organizations, both subject to various cost sharing features. Life insurance benefits are provided to nonunion retiree beneficiaries primarily based on employees' annual base salary at retirement. For U.S. union retirees, benefits are provided for the most part based on fixed amounts negotiated in labor contracts with the appropriate unions. F-17 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) Pension Benefits Other Benefits ----- 2000 1999 2000 1999 ----- (In millions) Change in benefit obligations Benefit obligations at January 1.... \$6,716 \$ 7,549 \$ 1,896 \$ 2,113 Service cost..... 76 87 12 15 Interest cost..... 505 473 147 133 Plan amendments..... -- 381(a) -- 14 Actuarial (gains) losses..... 430 (822) 260 (225) Plan merger and acquisition..... -- 42 -- 7 Settlements, curtailments and termination benefits..... -- (207) -- -- Benefits paid..... (806) (787) (166) (161) ----- Benefit obligations at December 31... \$6,921 \$ 6,716 \$ 2,149 \$ 1,896 ===== Change in plan assets Fair value of plan assets at January 1..... \$9,995 \$10,243 \$ 281 \$ 265 Actual return on plan assets..... 139 729 26 20 Acquisition..... (1) 26 -- 1 Employer contributions..... -- -- 576(b) 34 Trustee distributions(c)..... (16) (14) -- -- Settlements paid..... -- (207) -- -- Benefits paid from plan assets..... (805) (782) (41) (39) ----- Fair value of plan assets at December 31..... \$9,312 \$ 9,995 \$ 842 \$ 281 ===== Funded status of plans at December 31..... \$2,391(d) \$ 3,279(d) \$(1,307) \$(1,615) Unrecognized net gain from transition..... (2) (69) -- -- Unrecognized prior service cost..... 719 817 12 19 Unrecognized actuarial gains..... (462) (1,639) (241) (526) Additional minimum liability..... (19) (16) -- -- Prepaid (accrued) benefit cost..... \$2,627 \$ 2,372 \$(1,536) \$(2,122) ===== (a) Results primarily from a five-year labor contract with the United Steelworkers of America ratified in August 1999. (b) Includes contributions of \$530 million to a Voluntary Employee Benefit Association trust,

comprised of \$30 million in contractual requirements and an elective contribution of \$500 million. Also includes a \$30 million elective contribution to the non-union retiree life insurance trust. (c) Represents transfers of excess pension assets to fund retiree health care benefits accounts under Section 420 of the Internal Revenue Code. (d) Includes a plan that has accumulated benefit obligations in excess of plan assets: 2000 1999 ---- Aggregate accumulated benefit obligations..... \$(40) \$(29) Aggregate projected benefit obligations... (49) (39) Aggregate plan assets..... -- -- F-18 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) Pension Benefits Other Benefits ----- 2000 1999 1998 2000 1999 1998 ----- (In millions) Components of net periodic benefit cost (credit) Service cost..... \$ 76 \$ 87 \$ 71 \$ 12 \$ 15 \$ 15 Interest cost..... 505 473 487 147 133 141 Expected return on plan assets..... (841) (781) (769) (24) (21) (21) Amortization--net transition gain..... (67) (67) (69) -- -- -- --prior service costs.... 98 83 72 4 4 4 --actuarial (gains) losses..... (44) 6 6 (29) (12) (16) Multiemployer and other plans..... -- -- 1 9 (a) 7 (a) 13 (a) Settlement and termination (gains) losses..... -- (35)(b) 10(b) -- -- -- ----- Net periodic benefit cost (credit)..... \$(273) \$(234) \$(191) \$119 \$126 \$136 ===== (a) Represents payments to a multiemployer health care benefit plan created by the Coal Industry Retiree Health Benefit Act of 1992 based on assigned beneficiaries receiving benefits. The present value of this unrecognized obligation is broadly estimated to be \$84 million, including the effects of future medical inflation, and this amount could increase if additional beneficiaries are assigned. (b) Relates primarily to the 1998 voluntary early retirement program. Pension Other Benefits Benefits ----- 2000 1999 2000 1999 ----- Weighted average actuarial assumptions at December 31 Discount rate..... 7.5% 8.0% 7.5% 8.0% Expected annual return on plan assets..... 8.9% 8.5% 8.5% 8.5% Increase in compensation rate..... 4.0% 4.0% 4.0% 4.0% For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 5% for 2006 and remain at that level thereafter. A one-percentage-point change in assumed health care cost trend rates would have the following effects: 1-Percentage- 1-Percentage- Point Increase Point Decrease ----- (In millions) Effect on total of service and interest cost components..... \$ 16 \$ (14) Effect on other postretirement benefit obligations..... 177 (151) 13. Transactions with Related Parties Revenues and purchases--United States Steel revenues for sales to other subsidiaries of USX totaled \$17 million in both 2000 and 1999 and \$2 million in 1998. United States Steel purchases from other subsidiaries of USX totaled \$60 million, \$41 million and \$21 million in 2000, 1999 and 1998, respectively. At December 31, 2000 and 1999, United States Steel receivables from related parties totaled \$366 million and \$99 million, respectively, related to transactions with other subsidiaries of USX. At December 31, 2000 and 1999, United States Steel accounts payable to related parties totaled \$5 million and \$6 million, respectively, related to transactions with other subsidiaries of USX. These transactions were conducted under terms comparable to those with unrelated parties. F-19 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) Income taxes receivable from/payable to USX--At December 31, 2000 and 1999, amounts receivable or payable for income taxes were included in the balance sheet as follows: December 31 ----- 2000 1999 ----- (In millions) Current: Receivables..... \$364 \$ 97 Accounts payable..... 4 1 Noncurrent: Receivables..... 97 97 These amounts have been determined in accordance with the tax allocation policy described in Note 4. Amounts classified as current are settled in cash in the year succeeding that in which such amounts are accrued. Noncurrent amounts represent estimates of tax effects of certain issues for years that are still under various stages of audit and administrative review. Such tax effects are not settled until the audit of those respective tax years is closed. The amounts ultimately settled for open tax years will be different than recorded noncurrent amounts based on the final resolution of all of the audit issues for those years. 14. Inventories December 31 ----- 2000 1999 ----- (In millions) Raw materials..... \$214 \$101 Semi-finished products..... 429 392 Finished products..... 210 193 Supplies and sundry items..... 93 57 ----- Total..... \$946 \$743 ===== At December 31, 2000 and 1999, respectively, the LIFO method accounted for 91% and 93% of total inventory value. Current acquisition costs were estimated to exceed the above inventory values at December 31 by approximately \$380 million and \$370 million in 2000 and 1999, respectively. Cost of revenues was reduced and income from operations was increased by \$3 million in 2000 as a result of liquidations of LIFO inventories. 15.

Income Taxes Income tax provisions and related assets and liabilities attributed to United States Steel are determined in accordance with the USX tax allocation policy (Note 4). Provisions (credits) for income taxes were: 2000 1999 1998 ----- (In millions) Current Deferred Total Current Deferred Total Current Deferred Total ----- Federal..... \$(357) \$340 \$(17) \$(84) \$ 99 \$15 \$19 \$149 \$168 State and local..... (12) 49 37 1 8 9 3 9 12 Foreign..... -- -- -- 1 -- 1 (7) -- (7) ----- Total..... \$(369) \$389 \$ 20 \$(82) \$107 \$25 \$15 \$158 \$173 ===== =====

===== F-20 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) A reconciliation of federal statutory tax rate (35%) to total provisions follows: 2000 1999 1998 ----- (In millions) Statutory rate applied to income before income taxes..... \$-- \$27 \$188 Excess percentage depletion..... (3) (7) (11) Effects of foreign operations, including foreign tax credits..... (5) (2) (11) State and local income taxes after federal income tax effects..... 24 6 8 Credits other than foreign tax credits..... (3) (3) (3) Adjustments of prior years' federal income taxes..... 5 -- -- Other..... 2 4 2 ----- Total provisions..... \$ 20 \$25 \$173 ===== ===== Deferred tax assets and liabilities resulted from the following: December 31 ----- 2000 1999 ----- (In millions) Deferred tax assets: Minimum tax credit carryforwards..... \$ 39 \$ 131 State tax loss carryforwards (expiring in 2001 through 2020)..... 55 65 Employee benefits..... 782 998 Receivables, payables and debt..... 52 68 Expected federal benefit for deducting state deferred income taxes..... 16 -- Contingency and other accruals..... 71 52 Other..... 2 11 Valuation allowances--state..... (34) (41) ----- Total deferred tax assets(a)..... 983 1,284 ----- Deferred tax liabilities: Property, plant and equipment..... 248 274 Prepaid pensions..... 1,046 921 Inventory..... 15 16 Investments in subsidiaries and equity investees..... 82 96 Other..... 61 44 ----- Total deferred tax liabilities..... 1,452 1,351 ----- Net deferred tax liabilities..... \$ 469 \$ 67 ===== ===== (a) USX expects to generate sufficient future taxable income to realize the benefit of United States Steel's deferred tax assets. The consolidated tax returns of USX for the years 1990 through 1997 are under various stages of audit and administrative review by the IRS. United States Steel believes it has made adequate provision for income taxes and interest which may become payable for years not yet settled. Pretax income in 2000 included \$8 million attributable to foreign sources. F-21 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) Undistributed earnings of certain consolidated foreign subsidiaries at December 31, 2000, amounted to \$18 million. No provision for deferred U.S. income taxes has been made for these subsidiaries because United States Steel intends to permanently reinvest such earnings in those foreign operations. If such earnings were not permanently reinvested, a deferred tax liability of \$6 million would have been required. 16. Investments and Long-Term Receivables December 31 ----- 2000 1999 ----- (In millions) Equity method investments..... \$ 325 \$ 397 Other investments..... 67 39 Receivables due after one year..... 5 11 Deposits of restricted cash..... 3 2 Other..... 39 26 ----- Total..... \$ 439 \$ 475 ===== ===== Summarized financial information of investees accounted for by the equity method of accounting follows: 2000 1999 1998 ----- (In millions) Income data--year: Revenues and other income..... \$3,484 \$3,027 \$3,163 Operating income (loss)..... 112 (57) 193 Net income (loss)..... (166) (193) 97 Balance sheet data--December 31: Current assets..... \$ 911 \$ 995 Noncurrent assets..... 2,196 2,402 Current liabilities..... 1,171 1,181 Noncurrent liabilities..... 1,307 1,251 United States Steel acquired a 25% interest in VSZ during 2000. VSZ does not provide its shareholders with financial statements prepared in accordance with generally accepted accounting principles in the United States (USGAAP). Although shares of VSZ are traded on the Bratislava Stock Exchange, those securities do not have a readily determinable fair value as defined under USGAAP. Accordingly, United States Steel accounts for its investment in VSZ under the cost method of accounting. In 1999, United States Steel and Kobe Steel, Ltd. (Kobe Steel) completed a transaction that combined the steelmaking and bar producing assets of USS/Kobe Steel Company (USS/Kobe) with companies controlled by Blackstone Capital Partners II. The combined entity was named Republic Technologies International, LLC and is a wholly owned subsidiary of Republic

Technologies International Holdings, LLC (Republic). As a result of this transaction, United States Steel recorded \$47 million in charges related to the impairment of the carrying value of its investment in USS/Kobe and costs related to the formation of Republic. These charges were included in income (loss) from investees in 1999. In addition, United States Steel made a \$15 million equity investment in Republic. F-22 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) United States Steel owned 50% of USS/Kobe and now owns 16% of Republic. United States Steel accounts for its investment in Republic under the equity method of accounting. The seamless pipe business of USS/Kobe was excluded from this transaction. That business, now known as Lorain Tubular Company, LLC, became a wholly owned subsidiary of United States Steel at the close of business on December 31, 1999. Dividends and partnership distributions received from equity investees were \$10 million in 2000, \$2 million in 1999 and \$19 million in 1998. United States Steel's purchases of transportation services and semi-finished steel from equity investees totaled \$566 million, \$361 million and \$331 million in 2000, 1999 and 1998, respectively. At December 31, 2000 and 1999, U. S. Steel's payables to these investees totaled \$66 million and \$60 million, respectively. United States Steel's revenues for steel and raw material sales to equity investees totaled \$958 million, \$831 million and \$725 million in 2000, 1999 and 1998, respectively. At December 31, 2000 and 1999, United States Steel's receivables from these investees were \$177 million. Generally, these transactions were conducted under long-term, market-based contractual arrangements. 17. Leases Future minimum commitments for capital leases (including sale-leasebacks accounted for as financings) and for operating leases having remaining noncancelable lease terms in excess of one year are as follows: Capital Operating Leases Leases ----- (In millions)

2001.....	\$ 11	\$ 79	2002.....	11	56
2003.....	11	40	2004.....	11	37
2005.....	11	29	Later years.....	84	64
Sublease rentals.....	--	(62)	Total minimum lease payments.....	139	\$243
Less imputed interest costs.....	51	----	Present value of net minimum lease payments included in long-term debt.....	\$ 88	=====
Operating lease rental expense: 2000 1999 1998 ----	----	----	----- (In millions) Minimum rental.....	\$132	\$124 \$131
Contingent rental.....	17	18	19	Sublease rentals.....	(6) (6) (7)
Net rental expense.....	\$143	\$136	\$143	=====	=====

United States Steel leases a wide variety of facilities and equipment under operating leases, including land and building space, office equipment, production facilities and transportation equipment. Most long-term leases include renewal options and, in certain leases, purchase options. F-23 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) 18. Trust Preferred Securities In 1997, USX exchanged approximately 3.9 million 6.75% Convertible Quarterly Income Preferred Securities (Trust Preferred Securities) of USX Capital Trust I, a Delaware statutory business trust (Trust), for an equivalent number of shares of its 6.50% Cumulative Convertible Preferred Stock (6.50% Preferred Stock) (Exchange). The Exchange resulted in the recording of Trust Preferred Securities at a fair value of \$182 million. USX owns all of the common securities of the Trust, which was formed for the purpose of the Exchange. (The Trust Common Securities and the Trust Preferred Securities are together referred to as the Trust Securities.) The Trust Securities represent undivided beneficial ownership interests in the assets of the Trust, which consist solely of USX 6.75% Convertible Junior Subordinated Debentures maturing March 31, 2037 (Debentures), having an aggregate principal amount equal to the aggregate initial liquidation amount (\$50.00 per security and \$203 million in total) of the Trust Securities issued by the Trust. Interest and principal payments on the Debentures will be used to make quarterly distributions and to pay redemption and liquidation amounts on the Trust Preferred Securities. The quarterly distributions, which accumulate at the rate of 6.75% per annum on the Trust Preferred Securities and the accretion from fair value to the initial liquidation amount, are charged to income and included in net interest and other financial costs. Under the terms of the Debentures, USX has the right to defer payment of interest for up to 20 consecutive quarters and, as a consequence, monthly distributions on the Trust Preferred Securities will be deferred during such period. If USX exercises this right, then, subject to limited exceptions, it may not pay any dividend or make any distribution with respect to any shares of its capital stock. The Trust Preferred Securities are convertible at any time prior to the close of business on March 31, 2037 (unless such right is terminated earlier under certain circumstances) at the option of the holder, into shares of USX- U.S. Steel Group Common Stock at a conversion price of \$46.25 per share (equivalent to a conversion ratio of 1.081 shares for each Trust Preferred Security), subject to adjustment in certain circumstances. The Trust Preferred Securities may be redeemed at any time at the option of USX, at a

premium of 101.95% of the initial liquidation amount through March 31, 2001, and thereafter, declining annually to the initial liquidation amount on April 1, 2003, and thereafter. They are mandatorily redeemable at March 31, 2037, or earlier under certain circumstances. Payments related to quarterly distributions and to the payment of redemption and liquidation amounts on the Trust Preferred Securities by the Trust are guaranteed by USX on a subordinated basis. In addition, USX unconditionally guarantees the Trust's Debentures. The obligations of USX under the Debentures, and the related indenture, trust agreement and guarantee constitute a full and unconditional guarantee by USX of the Trust's obligations under the Trust Preferred Securities. F-24 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) 19. Equity 2000 1999 1998 ----- (In millions, except per share data) Preferred stock: Balance at beginning of year..... \$ 3 \$ 3 \$ 3 Repurchased.....

(1) -- -- -----	Balance at end of year.....	2 3 3	-----	USX's net investment:
	Balance at beginning of year.....	2,073 2,126 1,808		Net income (loss)..... (21) 44 364
	Repurchase of 6.50% preferred stock.....	(11) (2) (8)		Common stock issued..... 6 2 59
	Dividends on preferred stock.....	(8) (9) (9)		Dividends on common stock (per share \$1.00)..... (89) (88)
(88) -----	Balance at end of year.....	1,950 2,073 2,126	-----	Deferred compensation: Balance at beginning of year..... -- (1) (1)
(3) 1 -- -----	Balance at end of year.....	(3) -- (1)	-----	Changes during year, net of taxes.....
	comprehensive income (loss): Minimum pension liability adjustments (Note 12): Balance at beginning of year.....	(7) (27) (25)		Changes during year, net of taxes (b)..... 3 20 (2)
	at end of year.....	(4) (7) (27)	-----	Foreign currency translation adjustment: Balance at beginning of year.....
		(13) (8) (3)		Changes during year, net of taxes (b)..... (13) (5) (5)
-----	Balance at end of year.....	(26) (13) (8)	-----	Total accumulated other comprehensive income (loss)(a).....
\$1,919 \$2,056 \$2,093	=====	=====	-----	Total equity.....

(a) Total comprehensive income (loss) for United States Steel for the years 2000, 1999 and 1998 was \$(31) million, \$59 million and \$357 million, respectively. (b) Related income tax provision (credit): Minimum pension liability adjustment..... \$(1) \$(11) \$ 1 Foreign currency translation adjustments..... (5) 3 2 20. Stock-Based Compensation Plans The 1990 Stock Plan of USX, as amended and restated, authorizes the Compensation Committee of the board of directors of USX to grant restricted stock, stock options and stock appreciation rights of USX-U. S. Steel Group Common Stock to key management employees. Up to 0.8 percent of the outstanding stock, as determined on December 31 of the preceding year, are available for grants during each calendar year the 1990 Plan is in effect. In addition, awarded shares that do not result in shares being issued are available for subsequent grant, and any ungranted shares from prior years' annual allocations are available for subsequent grant during the years the 1990 Plan is in effect. As of December 31, 2000, 2,108,128 shares were available for grants in 2001. F-25 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) Restricted stock represents stock granted for such consideration, if any, as determined by the Compensation Committee, subject to provisions for forfeiture and restricting transfer. Those restrictions may be removed as conditions such as performance, continuous service and other criteria are met. Restricted stock is issued at the market price per share at the date of grant and vests over service periods that range from one to five years. Deferred compensation is charged to equity when the restricted stock is granted and subsequently adjusted for changes in the market value of the underlying stock. The deferred compensation is expensed over the balance of the vesting period and adjusted if conditions of the restricted stock grant are not met. The following table presents information on restricted stock grants: 2000 1999 1998 ----- Number of shares granted..... 305,725 18,272 17,742 Weighted-average grant-date fair value per share..... \$ 23.00 \$28.22 \$37.28 Stock options represent the right to purchase shares of stock at the market value of the stock at date of grant. Certain options contain the right to receive cash and/or common stock equal to the excess of the fair market value of shares of common stock, as determined in accordance with the plan, over the option price of shares. Most stock options vest after one-year service period and all expire 10 years from the date they are granted. The following is a summary of stock option activity: Shares Price(a) ----- Balance December 31, 1997..... 1,633,100 \$34.35 Granted..... 611,515 37.28 Exercised..... (230,805) 32.00 Canceled..... (21,240) 35.89 ----- Balance December 31, 1998..... 1,992,570 35.50 Granted..... 656,400 28.22 Exercised..... (2,580) 24.92 Canceled.....

(20,005) 38.51	-----	Balance December 31, 1999.....	2,626,385	33.67
Granted.....		915,470 23.00 Exercised.....	(400)	24.30
Canceled.....		(62,955) 38.19 -----	Balance December 31, 2000.....	
3,478,500	30.78	=====	-----	(a) Weighted-average exercise price

The weighted-average grant-date fair value per option was \$6.63 in 2000, \$6.95 in 1999 and \$8.29 in 1998. F-26 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) The following table represents stock options at December 31, 2000: Outstanding Exercisable ----- Weighted- Average

Weight-	Weight-	Range of	Number	Remaining	Average	Number	Average	Exercise	of Shares	Contractual	Exercise
Shares	Exercise	Prices	Under	Option	Life	Price	Under	Option	Price	-----	-----
-----	\$23.00-28.22	1,592,305	8.8	years	\$25.17	678,135	\$28.10	31.69-34.44	1,050,920	5.2	32.53
37.28-44.19	835,275	6.0	39.26	835,275	39.26	-----	-----	Total	3,478,500	2,564,330	=====

Actual stock-based compensation expense was \$1 million in 2000 and 1999 and there was no amount in 1998. Incremental compensation expense, as determined under a fair value model, was not material. Therefore, pro forma net income has been omitted. USX has a deferred compensation plan for non-employee directors of its Board of Directors. The plan permits participants to defer some or all of their annual retainers in the form of common stock units or cash and it requires new directors to defer at least half of their annual retainer in the form of common stock units. Common stock units are book entry units equal in value to a share of stock. Deferred stock benefits are distributed in shares of common stock within five business days after a participant leaves the Board of Directors. During 2000, 4,872 shares of stock were issued and during 1999, 3,798 shares of stock were issued. During 1998, no shares of common stock were issued. 21. Property, Plant and Equipment December 31 ----- 2000 1999 -----

-----	(In millions)	Land and depletable property.....	\$ 161	\$ 152
Buildings.....		602 484	Machinery and equipment.....	8,409
8,007	Leased assets.....	98 105	-----	Total.....

9,270 8,748 Less accumulated depreciation, depletion and amortization..... 6,531 6,232 ----- Net..... \$2,739 \$2,516 ===== Amounts in accumulated depreciation, depletion and amortization for assets acquired under capital leases (including sale-leasebacks accounted for as financings) were \$79 million and \$81 million at December 31, 2000 and 1999, respectively. During 2000, United States Steel recorded \$71 million of impairments relating to coal assets located in West Virginia and Alabama. The impairment was recorded as a result of a reassessment of long-term prospects after adverse geological conditions were encountered. The charge is included in depreciation, depletion and amortization. 22. Derivative Instruments United States Steel remains at risk for possible changes in the market value of derivative instruments; however, such risk should be mitigated by price changes in the underlying hedged item. United States Steel is also exposed to credit risk in the event of nonperformance by counterparties. F-27 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) The credit-worthiness of counterparties is subject to continuing review, including the use of master netting agreements to the extent practical, and full performance is anticipated. The following table sets forth quantitative information by class of derivative instrument: Fair Carrying Recorded Value Amount Deferred Aggregate Assets Assets Gain or Contract (Liabilities)(a) (Liabilities) (Loss) Values(b)

-----	(In millions)	December 31, 2000: OTC commodity swaps--other than trading(c).....	\$--	\$--	\$--	\$18	=====	=====	=====	=====	December 31, 1999: OTC commodity swaps--other than trading.....	\$ 3	\$ 3	\$ 3	\$37	=====	=====	=====	=====
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(a) The fair value amounts are based on exchange-traded index prices and dealer quotes. (b) Contract or notional amounts do not quantify risk exposure, but are used in the calculation of cash settlements under the contracts. (c) The OTC swap arrangements vary in duration with certain contracts extending into 2001. 23. Fair Value of Financial Instruments 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 22, by individual balance sheet account. As described in Note 4, United States Steel's specifically attributed financial instruments and the portion of USX's financial instruments attributed to United States Steel are as follows: December 31 -----

2000	1999	-----	Fair Carrying	Fair Carrying	Value	Amount	Value	Amount	-----	-----
-----	(In millions)	Financial assets: Cash and cash equivalents.....	\$ 219	\$ 219	\$ 22	\$ 22	Receivables	(including related parties' receivables).....	1,341	1,341

935 935 Investments and long-term

receivables.....	137	137	122	122	-----	-----	-----	-----	Total financial assets.....	\$1,697	\$1,697	\$1,079
	\$1,079	=====	=====	=====	=====	=====	=====	=====	Financial liabilities: Notes payable.....	\$ 70	\$ 70	\$ --
Accounts payable.....	760	760	739	739	Accrued interest.....	47	47	15	15	Long-term debt		
(including amounts due within one year).....	2,375	2,287	835	823	Preferred stock of subsidiary and					trust preferred securities.....	182	249
	182	249	232	249	-----	-----	-----	-----	Total financial liabilities.....			

\$3,434 \$3,413 \$1,821 \$1,826 ===== F-28 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) Fair value of financial instruments classified as current assets or liabilities approximates carrying value due to the short-term maturity of the instruments. Fair value of investments and long-term receivables was based on discounted cash flows or other specific instrument analysis. Certain foreign cost method investments are excluded from investments and long-term receivables because the fair value is not readily determinable. United States Steel is subject to market risk and liquidity risk related to its investments; however, these risks are not readily quantifiable. Fair value of preferred stock of subsidiary and trust preferred securities was based on market prices. Fair value of long-term debt instruments was based on market prices where available or current borrowing rates available for financings with similar terms and maturities. Financial guarantees are United States Steel's only unrecognized financial instrument. It is not practicable to estimate the fair value of this form of financial instrument obligation because there are no quoted market prices for transactions which are similar in nature. For details relating to financial guarantees, see Note 24. 24. Contingencies and Commitments United States 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 United States Steel's combined financial statements. Environmental matters-- United States Steel is subject to federal, state, local and foreign laws and regulations relating to the environment. These laws generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation of hazardous waste disposal sites. Penalties may be imposed for noncompliance. Accrued liabilities for remediation totaled \$137 million and \$101 million at December 31, 2000 and 1999, 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. For a number of years, United States Steel has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In 2000 and 1999, such capital expenditures totaled \$18 million and \$32 million, respectively. United States 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. Guarantees-- Guarantees of the liabilities of unconsolidated entities of United States Steel totaled \$82 million at December 31, 2000, and \$88 million at December 31, 1999. In the event that any defaults of guaranteed liabilities occur, United States Steel has access to its interest in the assets of the investees to reduce potential losses resulting from these guarantees. As of December 31, 2000, the largest guarantee for a single such entity was \$59 million. Commitments-- At December 31, 2000 and 1999, United States Steel's contract commitments to acquire property, plant and equipment totaled \$206 million and \$83 million, respectively. F-29 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) USSK has a commitment to the Slovak government for a capital improvements program of \$700 million, subject to certain conditions, over a period commencing with the acquisition date and ending on December 31, 2010. USSK is required to report periodically to the Slovak government on its status toward meeting this commitment. The first reporting period ends on December 31, 2003. United States Steel entered into a 15-year take-or-pay arrangement in 1993, which requires United States Steel to accept pulverized coal each month or pay a minimum monthly charge of approximately \$1 million. Charges for deliveries of pulverized coal totaled \$23 million in 2000, 1999 and 1998. If United States Steel elects to terminate the contract early, a maximum termination payment of \$96 million, which declines over the duration of the agreement, may be required. 25. Events Occurring After the Opinion Date (Unaudited) On March 1, 2001, USX completed the purchase of the tin mill products business of LTV Corporation (LTV), which is now operated as East Chicago Tin. In this noncash transaction, USX assumed approximately \$66 million of certain employee related obligations from LTV. The acquisition was accounted for using the purchase method of accounting. Results of operations for the six months of 2001 include the operations of East Chicago Tin from the date of acquisition. On March 23, 2001, Transtar, Inc. (Transtar) completed its previously announced reorganization with its two voting shareholders, USX and Transtar Holdings, L.P. (Holdings), an affiliate of Blackstone Capital Partners L. P.

As a result of this transaction, United States Steel became the sole owner of Transtar and certain of its subsidiaries. Holdings became owner of the other subsidiaries of Transtar. United States Steel accounted for this change in its ownership interest using the purchase method of accounting. United States Steel recognized in the first quarter of 2001, a pretax gain of \$70 million (included in income (loss) from investees) and a favorable deferred tax adjustment of \$33 million related to this transaction. United States Steel previously accounted for its investment in Transtar under the equity method of accounting. During the first quarter of 2001, USX reached an agreement with the IRS regarding its review of USX's consolidated tax returns for the years 1990 and 1991. In the first quarter of 2001, United States Steel recorded a favorable adjustment of \$67 million to net interest and financial costs and an unfavorable adjustment of \$15 million to provision for income taxes, both of which were related to prior years' taxes. United States Steel has a 16% investment in Republic Technologies International LLC (Republic) which was accounted for under the equity method of accounting. During the first quarter of 2001, United States Steel discontinued applying the equity method since investments in and advances to Republic had been reduced to zero. Also, United States Steel has recognized certain debt obligations of \$14 million previously assumed by Republic. On April 2, 2001, Republic filed a voluntary petition with the U.S. Bankruptcy Court to reorganize its operations under Chapter 11 of the U.S. Bankruptcy Code. In the first quarter of 2001, as a result of Republic's action, United States Steel recorded a pretax charge of \$74 million for the potentially uncollectible receivables from Republic. On July 2, 2001, a corporate reorganization was implemented to create a new holding company structure. USX became a holding company that owns all of the outstanding equity of Marathon Oil Company, an Ohio Corporation which, directly and indirectly, owns and operates the businesses of the USX-Marathon Group, and United States Steel LLC, a Delaware limited liability company which owns and operates the businesses of the USX-U. S. Steel Group. This reorganization in corporate form is independent of the Proposed Separation of the energy and steel businesses of USX Corporation. F-30 UNITED STATES STEEL NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) On July 31, 2001, USX announced that its board of directors approved the definitive plan of reorganization to separate the energy and steel businesses of USX (Proposed Separation). The Proposed Separation envisions a tax-free spin-off of the steel business of USX into a freestanding, publicly traded company to be known as United States Steel Corporation. Holders of current USX- U. S. Steel Group Common Stock will become holders of United States Steel Corporation Common Stock. Holders of current USX-Marathon Group Common Stock will continue to hold their shares in USX which will be renamed Marathon Oil Corporation. The Proposed Separation does not contemplate a cash distribution to stockholders. The Proposed Separation is subject to the approval of the holders of a majority of the outstanding shares of each class of current USX common stock, receipt of a favorable private letter ruling from the Internal Revenue Service ("IRS") on the tax-free nature of the transaction, completion of necessary financing arrangements and receipt of necessary regulatory and third party consents. The transaction is expected to occur on or about December 31, 2001. On May 31, 2001 a major fire damaged the cold-rolling mill at USS-POSCO, which is fifty percent owned by United States Steel. Damage was predominantly limited to the cold-rolling mill area of the plant. USS-POSCO maintains insurance coverage against such losses, including coverage for business interruption. The mill is expected to resume production in the first quarter of 2002, although full-production may not be achieved until mid-2002. Until such time, the plant will continue customer shipments using cold-rolled coils from United States Steel and POSCO as substitute feedstock. On August 14, 2001, United States Steel announced its intention to permanently close the cold rolling and tin mill operations at Fairless Works, with an annual finishing capability of 1.5 million tons, on or after November 12, 2001. Under its labor agreement, United States Steel is required to discuss the proposed shutdown with the United Steel Workers of America before making a final decision. United States Steel also announced that, subject to market conditions, it currently intends to continue operating the hot dip galvanizing line at Fairless Works. The anticipated financial impact of the shutdown, which is predominately noncash, will be recorded in the second half of 2001 and is estimated to be a pretax charge of \$35 to \$45 million. F-31 UNITED STATES STEEL SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) 2000 1999 ----- 4th 3rd 2nd 1st 4th 3rd 2nd 1st Qtr. Qtr. Qtr. Qtr. Qtr. Qtr. Qtr. Qtr. ----- (In millions, except per share data) Revenues and other income: Revenues(a)..... \$1,417 \$1,462 \$1,629 \$1,582 \$1,492 \$1,415 \$1,344 \$1,285 Other income (loss)... (4) 13 27 6 8 (40) 1 (35) ----- Total..... 1,413 1,475 1,656 1,588 1,500 1,375 1,345 1,250 Income (loss) from operations..... (159) 60 112 91 75 (26) 103 (2) Income (loss) before extraordinary losses... (139) 19 56 43 34 (29) 55 (9) Net income (loss)..... (139) 19 56 43 34 (31) 55 (14) ----- (a) Certain items have been reclassified between revenues and cost of revenues,

primarily to give effect to new accounting standards as disclosed in Note 3 of the Notes to Combined Financial Statements. Amounts reclassified in the first, second and third quarters of 2000 were \$41 million, \$45 million and \$45 million, respectively, and for the first, second, third and fourth quarters of 1999 were \$39 million, \$41 million, \$38 million and \$38 million, respectively.

**SUPPLEMENTARY INFORMATION ON MINERAL RESERVES (UNAUDITED)**

United States Steel operates two underground coal mining complexes, the #50 Mine and Pinnacle Preparation Plant in West Virginia, and the Oak Grove Mine and Concord Preparation Plant in Alabama. United States Steel also operates one iron ore surface mining complex consisting of the open pit Minntac Mine and Pellet Plant in Minnesota. Production History The following table provides a summary, by mining complex, of our minerals production in millions of tons for each of the last three years: 2000 1999 1998

Coal: #50 Mine/Pinnacle Preparation Plant.....	3.3	4.1	4.5
Oak Grove Mine/Concord Preparation Plant.....	2.2	2.1	2.8
Total coal production.....	5.5	6.2	7.3

Iron Ore Pellets: Minntac Mine and Pellet Plant..... 16.3 14.3 15.8

Adverse mining conditions in the form of unforeseen geologic conditions occurred at both coal mining operations in the year 2000. Coal production was diminished and mining costs were elevated. Force majeure conditions were declared with respect to contracted coal deliveries with certain contracts fulfilled by purchased substitutes and other contracts fulfilled by extension of delivery time into 2001. These adverse mining conditions did not affect reserves reported as of December 31, 2000. No recent adverse events affected iron ore pellet production other than fluctuations in market demand. F-32

**SUPPLEMENTARY INFORMATION ON MINERAL RESERVES (UNAUDITED)--(Continued)**

**Coal Reserves**

United States Steel had 786.6 million short tons of recoverable coal reserves classified as proven and probable at December 31, 2000. Proven and probable reserves are defined by sites for inspection, sampling, and measurement generally less than 1 mile apart, such that continuity between points and subsequent economic evaluation can be assured. Independent outside entities have reviewed United States Steel's coal reserve estimates on properties comprising approximately 70% of the stated coal reserves. The following table summarizes our proven and probable coal reserves as of December 31, 2000, the status of the reserves as assigned or unassigned, our property interest in the reserves, and certain characteristics of the reserves:

Proven	Reserve Control	Coal Characteristics	As Received(4)	Probable	BTU Per As Received(4)	Location	Reserves(1)(5)	Owned	Leased				
Grade	Volatility	Pound % Sulfur											
Assigned Reserves(2): Oak Grove Mine, AL.....	52.1	52.1	-- Metallurgical	Low	>12,000	12,000	12,000	12,000	12,000				
0.7%-2.5% Alabama.....	31.9	--	31.9	Metallurgical	Medium	>12,000	amortized discount.....	2,085	2,236				
Deferred income taxes.....	709	666	Employee benefits.....	1,916	1,767	Deferred credits and other liabilities.....	475	483	Preferred stock of subsidiary.....				
66	66	Mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely junior subordinated convertible debentures of USX.....	183	183	EQUITY Preferred stock.....	2	2	USX's net investment.....	1,902	1,950	Deferred compensation.....	(10)	(3)
Accumulated other comprehensive loss.....	(34)	(30)	Total equity.....	1,860	1,919	Total liabilities and equity.....	\$8,954	\$8,711	Selected notes to combined financial statements appear on pages F-39 to F-45. F-37				

**UNITED STATES STEEL COMBINED STATEMENT OF CASH FLOWS (Unaudited) Six Months Ended June 30**

	2001	2000
(In millions) Increase (decrease) in cash and cash equivalents		
Operating activities: Net income (loss).....	\$ (21)	\$ 99
Adjustments to reconcile to net cash provided from operating activities:		
Depreciation, depletion and amortization.....	152	153
Pensions and other postretirement benefits.....	(51)	(163)
Deferred income taxes.....	56	146
Net gains on disposal of assets.....	(16)	(28)
Changes in: Current receivables.....	64	13
Inventories.....	57	(29)
Current accounts payable and accrued expenses.....	61	(90)
All other--net.....	(77)	(2)
Net cash provided from operating activities.....	225	99
Investing activities: Capital expenditures.....	(141)	(97)
Disposal of assets.....	9	16
Restricted cash--withdrawals.....	3	3
--deposits.....	(2)	(1)
Investees--investments.....	(1)	(11)
All other--net.....	10	3
Net cash used in investing activities.....	(122)	(87)
Financing activities: Increase (decrease) in attributed portion of USX consolidated debt.....	(26)	37
Specifically attributed debt repayments.....	(6)	(6)
Preferred stock repurchased.....	--	(12)
Dividends		

paid.....	(35)	(48)	-----	-----	Net cash used in financing activities.....	(67)	(29)
-----	-----	-----	-----	-----	Effect of exchange rate changes on cash.....	(1)	-----
-----	-----	-----	-----	-----	Net increase (decrease) in cash		
and cash equivalents.....	35	(17)			Cash and cash equivalents at beginning of year.....	219	22
-----	-----	-----	-----	-----	Cash		
and cash equivalents at end of period.....	\$	254	\$	5	=====	=====	Cash provided from (used in)
operating activities included: Interest and other financial costs paid (net of amount							
capitalized).....	\$	(93)	\$	(41)	Income taxes refunded, including settlements with USX...	387	85

Selected notes to combined financial statements appear on pages F-39 to F-45. F-38 UNITED STATES STEEL  
 SELECTED NOTES TO COMBINED FINANCIAL STATEMENTS (Unaudited) 1. The accompanying combined  
 financial statements represent a carve-out financial statement presentation of the businesses comprising United States  
 Steel and are not intended to be a complete presentation of the financial position, the results of operations and cash  
 flows of United States Steel on a stand-alone basis. These combined financial statements are presented as if United  
 States Steel existed as an entity separate from the remaining businesses of USX Corporation (USX) during the periods  
 presented. The accompanying combined financial statements include the historical operations of certain divisions of  
 USX and certain subsidiaries of USX. In this context, no direct ownership existed among all the various units  
 comprising United States Steel; accordingly, USX's net investment in United States Steel (USX's net investment) is  
 shown in lieu of Common Stockholder's Equity in the combined financial statements. The combined financial  
 statements included herein have been prepared from USX's historical accounting records. The information furnished  
 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 combined financial statements, including selected notes, have been prepared in accordance  
 with the applicable rules of the Securities and Exchange Commission and do not include all of the information and  
 disclosures required by generally accepted accounting principles for complete financial statements. 2. Effective  
 January 1, 2001, United States Steel adopted Statement of Financial Accounting Standards No. 133, "Accounting for  
 Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended by SFAS Nos. 137 and 138. This  
 Standard, as amended, requires recognition of all derivatives at fair value as either assets or liabilities. United States  
 Steel uses commodity-based and foreign currency derivative instruments to manage its exposure to price risk.  
 Management has authorized the use of futures, forwards, swaps and options to reduce the effects of fluctuations  
 related to the purchase of natural gas and nonferrous metals and also certain business transactions denominated in  
 foreign currencies. United States Steel has not elected to designate derivative instruments as qualifying for hedge  
 accounting treatment. As a result, the changes in fair value of all derivatives are recognized immediately in earnings.  
 A cumulative effect adjustment relating to the adoption of SFAS No. 133 was recognized in other comprehensive  
 income. The cumulative effect adjustment relates only to deferred gains or losses existing as of the close of business  
 on December 31, 2000, for hedge transactions under prior accounting rules. The effect of adoption of SFAS No. 133  
 was less than \$1 million, net of tax. In June 2001, the Financial Accounting Standards Board approved Statements of  
 Financial Accounting Standards No. 141 "Business Combinations" (SFAS 141), No. 142 "Goodwill and Other  
 Intangible Assets" (SFAS 142) and No. 143 "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 141  
 requires all business combinations completed after June 30, 2001, be accounted for under the purchase method. This  
 standard also establishes for all business combinations made after June 30, 2001, specific criteria for the recognition  
 of intangible assets separately from goodwill. SFAS 141 also requires that the excess of fair value of acquired assets  
 over cost (negative goodwill) be recognized immediately as an extraordinary gain, rather than deferred and amortized.  
 United States Steel will account for all future business combinations under SFAS 141. F-39 UNITED STATES  
 STEEL SELECTED NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) (Unaudited) SFAS 142  
 addresses the accounting for goodwill and other intangible assets after an acquisition. The most significant changes  
 made by SFAS 142 are: 1) goodwill and intangible assets with indefinite lives will no longer be amortized; 2)  
 goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and 3) the  
 amortization period for the intangible assets with finite lives will no longer be limited to forty years. United States  
 Steel will adopt SFAS 142 effective January 1, 2002, as required. At that time, amortization of existing goodwill will  
 cease on the unamortized portion associated with previous acquisitions and certain investments accounted for under  
 the equity method. This provision of SFAS 142 is not expected to have a material impact on the results of operations  
 for United States Steel. Additionally, SFAS 142 requires that unamortized negative goodwill associated with  
 investments accounted for under the equity method and acquired before July 1, 2001, be recognized in income as a

cumulative effect of change in accounting principle. United States Steel expects to recognize a favorable cumulative effect of a change in accounting principle of approximately \$20 million, net of tax, upon adoption. United States Steel continues to evaluate the financial effects of the provisions of SFAS 142 pertaining to intangible assets other than goodwill. SFAS 143 provides accounting requirements for retirement obligations associated with tangible long-lived assets, including: 1) the timing of liability recognition; 2) initial measurement of the liability; 3) allocation of asset retirement cost to expense; 4) subsequent measurement of the liability; and 5) financial statement disclosures. SFAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. United States Steel will adopt the Statement effective January 1, 2003. The transition adjustment resulting from the adoption of SFAS 143 will be reported as a cumulative effect of a change in accounting principle. At this time, United States Steel cannot reasonably estimate the effect of the adoption of this Statement on either its financial position or results of operations. 3. The financial statement provision for income taxes and related tax payments or refunds have been reflected in United States Steel's financial statements in accordance with USX's tax allocation policy. In general, such policy provides that the consolidated tax provision and related tax payments or refunds are allocated to United States Steel principally upon its financial income, taxable income, credits, preferences and other directly related amounts. The provision for income taxes for United States Steel is based on tax rates and amounts which recognize management's best estimate of current and deferred tax assets and liabilities. 4. On November 24, 2000, United States Steel acquired U. S. Steel Kosice, s.r.o. (USSK), which is primarily located in the Slovak Republic. USSK was formed in June 2000 to hold the steel operations and related assets of VSZ a.s. (VSZ), a diversified Slovak corporation. The acquisition was accounted for under the purchase method of accounting. On March 1, 2001, United States Steel completed the purchase of the tin mill products business of LTV Corporation (LTV), which is now operated as East Chicago Tin. In this noncash transaction, United States Steel assumed approximately \$66 million of certain employee related obligations from LTV. The acquisition was accounted for using the purchase method of accounting. Results of operations for the six months of 2001 include the operations of East Chicago Tin from the date of acquisition. F-40 UNITED STATES STEEL SELECTED NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) (Unaudited) On March 23, 2001, Transtar, Inc. (Transtar) completed its previously announced reorganization with its two voting shareholders, USX and Transtar Holdings, L.P. (Holdings), an affiliate of Blackstone Capital Partners L.P. As a result of this transaction, United States Steel became sole owner of Transtar and certain of its subsidiaries. Holdings became owner of the other subsidiaries of Transtar. United States Steel accounted for the change in its ownership interest in Transtar using the purchase method of accounting. United States Steel recognized in the six months of 2001 a pretax gain of \$68 million (included in income (loss) from investees) and a favorable deferred tax adjustment of \$33 million related to this transaction. United States Steel previously accounted for its investment in Transtar under the equity method of accounting. The following unaudited pro forma data for United States Steel includes the results of operations of the above acquisitions giving effect to them as if they had been consummated at the beginning of the periods presented. The six months 2001 pro forma results exclude the \$68 million gain and \$33 million tax benefit recorded as a result of the Transtar transaction. In addition, VSZ did not historically provide historical carve-out financial information for its steel activities prepared in accordance with generally accepted accounting principles in the United States. Therefore, United States Steel made certain estimates and assumptions regarding revenues and costs used in the preparation of the unaudited pro forma data relating to USSK for the six months of 2000. The following pro forma data is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations. Six Months Ended June 30 ----- 2001 2000 ----- (In millions) Revenues and other income..... \$3,279 \$3,850 Net income (loss)..... (123) 137 F-41 UNITED STATES STEEL SELECTED NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) (Unaudited) 5. United States Steel consists of two reportable operating segments: 1) Domestic Steel and 2) U. S. Steel Kosice (USSK). Domestic Steel includes the United States operations of United States Steel while USSK includes the United States Steel operations primarily located in the Slovak Republic. Domestic Steel is engaged in the domestic production, sale and transportation of steel mill products, coke, taconite pellets and coal; the management of mineral resources; real estate development; and engineering and consulting services. USSK is engaged in the production and sale of steel mill products and coke and primarily serves central European markets. The results of segment operations are as follows: Domestic Total Steel USSK Segments ----- (In millions) Second Quarter 2001 Revenues and other income:

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Customer..... \$1,447 \$284 \$1,731 Intersegment(a)..... 2 -- 2 Other subsidiaries of USX(a)..... 2 -- 2 Equity in earnings (losses) of unconsolidated investees..... (8) 1 (7) Other..... 11 -- 11 ----- Total revenues and other income..... \$1,454 \$285 \$1,739 ===== Segment income (loss)..... \$ (69) \$ 41 \$ (28) ===== Second Quarter 2000 Revenues and other income: Customer..... \$1,625 \$-- \$1,625 Other subsidiaries of USX(a)..... 4 -- 4 Equity in earnings of unconsolidated investees..... 14 -- 14 Other..... 13 -- 13 ----- Total revenues and other income..... \$1,656 \$-- \$1,656 ===== Segment income..... \$ 68 \$-- \$ 68 ===== (a) Revenues and transfers between segments and with other subsidiaries of USX were conducted under terms comparable to those with unrelated parties.

F-42 UNITED STATES STEEL SELECTED NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) (Unaudited) Domestic Total Steel USSK Segments ----- (In millions) Six Months 2001 Revenues and other income: Customer..... \$2,709 \$530 \$3,239 Intersegment(a)..... 3 -- 3 Other subsidiaries of USX(a)..... 4 -- 4 Equity in earnings of unconsolidated investees..... 39 1 40 Other..... 17 1 18 ----- Total revenues and other income..... \$2,772 \$532 \$3,304 ===== Segment income (loss)..... \$ (220) \$ 82 \$ (138) ===== Six Months 2000 Revenues and other income: Customer..... \$3,203 \$-- \$3,203 Other subsidiaries of USX(a)..... 8 -- 8 Equity in earnings of unconsolidated investees..... 7 -- 7 Other..... 26 -- 26 ----- Total revenues and other income..... \$3,244 \$-- \$3,244 ===== Segment income..... \$ 122 \$-- \$ 122 ===== (a) Revenues and transfers between segments and with other subsidiaries of USX were conducted under terms comparable to those with unrelated parties. The following schedule reconciles segment revenues and income to amounts reported in United States Steel's combined financial statements: Second Quarter Ended Six Months June 30 Ended June 30 ----- 2001 2000 2001 2000 ----- (In millions) Revenues and other income: Revenues and other income of reportable segments..... \$ 1,739 \$ 1,656 \$3,304 \$3,244 Elimination of intersegment revenues..... (2) -- (3) ----- Total revenues and other income.. \$ 1,737 \$ 1,656 \$3,301 \$3,244 ===== Income: Income (loss) for reportable segments..... \$ (28) \$ 68 \$ (138) \$ 122 Items not allocated to segments: Administrative expenses..... (8) (5) (15) (11) Net pension credits..... 31 67 72 132 Costs related to former business activities..... (14) (18) (38) (40) Costs related to Proposed Separation..... (8) -- (9) ----- Total income (loss) from operations..... \$ (27) \$ 112 \$ (128) \$ 203 =====

F-43 UNITED STATES STEEL SELECTED NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) (Unaudited) 6. United States Steel's total comprehensive income (loss) was \$(31) million for the second quarter of 2001, \$54 million for the second quarter of 2000, \$(24) million for the six months of 2001 and \$98 million for the six months of 2000. 7. United States Steel has a 16% investment in Republic Technologies International LLC (Republic) which was accounted for under the equity method of accounting. During the first quarter of 2001, United States Steel discontinued applying the equity method since investments in and advances to Republic had been reduced to zero. Also, United States Steel has recognized certain debt obligations of \$14 million previously assumed by Republic. On April 2, 2001, Republic filed a voluntary petition with the U.S. Bankruptcy Court to reorganize its operations under Chapter 11 of the U.S. Bankruptcy Code. In the first quarter of 2001, as a result of Republic's action, United States Steel recorded a pretax charge of \$74 million for potentially uncollectible receivables from Republic. 8. Inventories are carried at the lower of cost or market. Cost of inventories is determined primarily under the last-in, first-out (LIFO) method. June 30 December 31 2001 2000 ----- (In millions) Raw materials..... \$170 \$214 Semi-finished products..... 378 429 Finished products..... 259 210 Supplies and sundry items..... 109 93 ---- Total..... \$916 \$946 ===== 9. At June 30, 2001, and December 31, 2000, estimated income tax receivables from USX included in receivables from related parties were \$320 million and \$364 million, respectively. In addition, long-term receivables from related parties at June 30, 2001, and December 31, 2000, were \$43 million and \$97 million, respectively, of income taxes receivable from USX. These amounts have been determined in accordance with the tax allocation policy discussed in Note 3. 10. Interest and other financial costs in the six months of 2001 included a favorable adjustment of \$67 million and

provision for income taxes included an unfavorable adjustment of \$15 million, both of which are related to prior years' taxes. 11. United States Steel is the subject of, or a party to, a number of pending or threatened legal actions, contingencies and commitments relating to United States Steel 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 United States Steel combined financial statements. United States 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. At June 30, 2001, and December 31, 2000, accrued liabilities for remediation totaled \$138 million and \$137 million, 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. F-44 UNITED STATES STEEL SELECTED NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued) (Unaudited) For a number of years, United States Steel has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In the second quarter of 2001 and for the years 2000 and 1999, such capital expenditures totaled \$6 million, \$18 million and \$32 million, respectively. United States 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. Guarantees by United States Steel of the liabilities of affiliated entities of United States Steel totaled \$58 million at June 30, 2001. In the event that any defaults of guaranteed liabilities occur, United States Steel has access to its interest in the assets of the affiliates to reduce losses resulting from these guarantees. As of June 30, 2001, the largest guarantee for a single affiliate was \$48 million. United States Steel's contract commitments to acquire property, plant and equipment at June 30, 2001, totaled \$109 million compared with \$206 million at December 31, 2000. 12. On July 31, 2001, USX announced that its board of directors approved the definitive plan of reorganization to separate the energy and steel businesses of USX (Proposed Separation). The Proposed Separation envisions a tax-free spin-off of the steel business of USX into a freestanding, publicly traded company to be known as United States Steel Corporation. Holders of current USX-U. S. Steel Group Common Stock will become holders of United States Steel Corporation Common Stock. Holders of current USX-Marathon Group Common Stock will continue to hold their shares in USX which will be renamed Marathon Oil Corporation. The Proposed Separation does not contemplate a cash distribution to stockholders. The Proposed Separation is subject to the approval of the holders of a majority of the outstanding shares of each class of current USX common stock, receipt of a favorable private letter ruling from the Internal Revenue Service ("IRS") on the tax-free nature of the transaction, completion of necessary financing arrangements and receipt of necessary regulatory and third party consents. The transaction is expected to occur on or about December 31, 2001. Costs related to the Proposed Separation include professional fees and other expenses and are included in selling, general and administrative expenses (credits). These costs in the second quarter and six months of 2001 were \$8 million and \$9 million, respectively. 13. On July 2, 2001, a corporate reorganization was implemented to create a new holding company structure. USX became a holding company that owns all of the outstanding equity of Marathon Oil Company, an Ohio Corporation which, directly and indirectly, owns and operates the businesses of the USX-Marathon Group, and United States Steel LLC, a Delaware limited liability company which owns and operates the businesses of the USX-U. S. Steel Group. This reorganization in corporate form is independent of the Proposed Separation of the energy and steel businesses of USX Corporation. 14. On August 14, 2001, United States Steel announced its intention to permanently close the cold rolling and tin mill operations at Fairless Works, with an annual finishing capability of 1.5 million tons, on or after November 12, 2001. Under its labor agreement, United States Steel is required to discuss the proposed shutdown with the United Steel Workers of America before making a final decision. United States Steel also announced that, subject to market conditions, it currently intends to continue operating the hot dip galvanizing line at Fairless Works. The anticipated financial impact of the shutdown, which is predominately noncash, will be recorded in the second half of 2001 and is estimated to be a pretax charge of \$35 to \$45 million. F-45 The Exchange Agent for the exchange offers is: The Bank of New York By Hand and Overnight By Registered or By Facsimile (Eligible Courier: Certified Mail: Institutions only): (914)773-5015 (914)773-5025 20 Broad Street 101 Barclay Street, 7E To Confirm by Telephone or Corp. Trust Services Window New York, New York 10286 for Information Call: New York, New York 10286 Attn: Reorganization Section (914)773-5735 Attn: Reorganization Unit Any questions or requests for assistance or for additional copies of this prospectus, the letter of transmittal, or related documents may be directed to the Information

Agent at the telephone number listed below. You may also contact the Dealer Managers at their telephone number set forth or such holder's custodian bank, depository, broker, trust company, or other nominee for assistance concerning the exchange offers. The Information Agent for the exchange offers is: Mellon Investor Services LLC 44 Wall Street - 7th Floor New York, New York 10005 Toll Free: (866)293-6624 Phone: (917)320-6286 Fax: (917)320-6320 The Dealer Managers for the exchange offers are: Goldman, Sachs & Co. 85 Broad Street New York, New York 10004 Toll Free: (800) 828-3182 PART II INFORMATION NOT REQUIRED IN THE PROSPECTUS Item 20.

Indemnification of Directors and Officers Limited liability companies organized under the laws of the State of Delaware are empowered by Section 18-108 of the Delaware Limited Liability Company Act to indemnify any person, including officers and directors, from and against any and all claims or demands whatsoever. Section 145 of the Delaware General Corporation Law (the "DGCL") provides that a corporation has the power to indemnify its officers, directors, employees and agents (or persons serving in such positions in another entity at the request of the corporation) against the expenses, including attorneys' fees, judgments, fines or settlement amounts actually and reasonably incurred by them, in connection with the defense of any action by reason of being or having been directors or officers, if such person shall have acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation (and, with respect to any criminal action, had no reasonable cause to believe the person's conduct was unlawful), except that, if such action shall be by or in the right of the corporation, no such indemnification shall be provided as to any claim, issue or matter as to which such person shall have been judged to have been liable to the corporation unless and to the extent that the Court of Chancery of the State of Delaware, or another court in which the suit was brought, shall determine upon application that, in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity. Section 145 also provides that, to the extent a director or officer is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify such person against expenses actually and reasonably incurred in connection therewith. Article XI of the Amended and Restated Limited Liability Company Operating Agreement (the "Restated Operating Agreement") of United States Steel LLC (the "Company") provides, and, upon the conversion of the Company into a corporation (the "Conversion"), Article V of the Bylaws of United States Steel Corporation (the "Corporation" and, together with the Company, "United States Steel") will provide that United States Steel shall indemnify and hold harmless to the fullest extent permitted by law any person who was or is made or is threatened to be made a party or is involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he, or a person for whom he is the legal representative, is or was a director, officer, employee or agent of United States Steel or is or was serving at the request of United States Steel as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise, or nonprofit entity, including service with respect to employee benefit plans, against all expenses, liability, and loss reasonably incurred or suffered by such person. Article V of the Bylaws of USX Corporation provides that USX Corporation shall indemnify and hold harmless to the fullest extent permitted by law any person who was or is made or is threatened to be made a party or is involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he, or a person for whom he is the legal representative, is or was a director, officer, employee or agent of USX Corporation, or is or was serving at the request of USX Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise, or nonprofit entity, including service with respect to employee benefit plans, against all expenses, liability, and loss reasonably incurred or suffered by such person. Policies of insurance are maintained by United States Steel and USX Corporation under which the registrants' respective directors and officers are insured, within the limits and subject to the limitations of the policies, against certain expenses in connection with the defense of actions, suits or II-1 proceedings, and certain liabilities which might be imposed as a result of such actions, suits or proceedings, to which they are parties by reason of being or having been such directors or officers. The United States Steel LLC Restated Operating Agreement and Article XI of the USX Corporation Restated Certificate of Incorporation provide, and after the Conversion, the Restated Certificate of Incorporation of the Corporation will provide, that none of the directors of United States Steel or USX Corporation shall be personally liable to United States Steel or USX Corporation, respectively, or their respective members, stockholders, or future stockholders, for monetary damages for any breach of fiduciary duty by such director as a director, except (i) for breach of the director's duty of loyalty to United States Steel or USX Corporation, respectively, or their respective members, stockholders, or future stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the DGCL (which, prior to the Conversion,

shall be applied as if United States Steel LLC were a corporation organized pursuant to the DGCL), or (iv) for any transaction from which the director derived an improper personal benefit. Item 21. Exhibits and Financial Statement Schedules (a) Exhibits. See Exhibit Index. (b) Financial Statement Schedules. All schedules, for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission, are either: not required; inapplicable; or the required information has been provided elsewhere or incorporated by reference in this registration statement. (c) Reports, Opinions or Appraisals. Not applicable. Item 22. Undertakings (a)(1) The undersigned registrants hereby undertake to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report, to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information. (2) The undersigned registrants hereby undertake that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrants' annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrants pursuant to the foregoing provisions, or otherwise, the registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrants of expenses incurred or paid by a director, officer or controlling II-2 person of the registrants in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrants will, unless in the opinion of their respective counsels the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by them is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. (b) The undersigned registrants hereby undertake to respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11, or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request. (c) The undersigned registrants hereby undertake to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective. II-3 SIGNATURES Pursuant to the requirements of the Securities Act, United States Steel LLC has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Pittsburgh, state of Pennsylvania on October 11, 2001. UNITED STATES STEEL LLC /s/ Gretchen R. Haggerty By: \_\_\_\_\_ Name: Gretchen R. Haggerty Title: Vice President--Accounting & Finance Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated. Signature Title Date ----- \* Chairman and Chief October 11, 2001 \_\_\_\_\_ Executive Officer Thomas J. Usher (Principal Executive Officer and Director) /s/ Gretchen R. Haggerty Vice President--Accounting October 11, 2001 \_\_\_\_\_ & Finance (Principal Gretchen R. Haggerty Financial Officer and Director) \* Comptroller (Controller) October 11, 2001 \_\_\_\_\_ Paul C. Reinbolt \* Director October 11, 2001 \_\_\_\_\_ Charles G. Carson, III \* Director October 11, 2001 \_\_\_\_\_ John J. Connelly \* Director October 11, 2001 \_\_\_\_\_ Roy G. Dorrance \* Director October 11, 2001 \_\_\_\_\_ Albert E. Ferrara, Jr. \* Director October 11, 2001 \_\_\_\_\_ James D. Garraux \* Director October 11, 2001 \_\_\_\_\_ Charles C. Gedeon \* Director October 11, 2001



States Steel LLC (to be converted into United States Steel Corporation) (incorporated by reference to Exhibit 10.1 of United States Steel LLC's Registration Statement on Form S-4 filed September 20, 2001). 10.2 Form of Transition Services Agreement between USX Corporation (to be renamed Marathon Oil Corporation) and United States Steel LLC (to be converted into United States Steel Corporation) (incorporated by reference to Exhibit 10.2 of United States Steel LLC's Registration Statement on Form S-4 filed September 20, 2001). 10.3 Form of Financial Matters Agreement between USX Corporation (to be renamed Marathon Oil Corporation) and United States Steel LLC (to be converted into United States Steel Corporation) (incorporated by reference to Exhibit 10.3 of United States Steel LLC's Registration Statement on Form S-4 filed September 20, 2001). Exhibit Number Description -----  
 10.4 Form of Insurance Assistance Agreement between USX Corporation (to be renamed Marathon Oil Corporation) and United States Steel LLC (to be converted into United States Steel Corporation) (incorporated by reference to Exhibit 10.4 of United States Steel LLC's Registration Statement on Form S-4 filed September 20, 2001). 10.5 Form of License Agreement between USX Corporation (to be renamed Marathon Oil Corporation) and United States Steel LLC (to be converted into United States Steel Corporation) (incorporated by reference to Exhibit 10.5 of United States Steel LLC's Registration Statement on Form S-4 filed September 20, 2001). 10.6 Completion and Retention Agreement, dated as of August 8, 2001, between United States Steel LLC and Thomas J. Usher (incorporated by reference to Exhibit 10.10 of United States Steel LLC's Registration Statement on Form S-4 filed September 20, 2001). 10.7 Retention Agreement, dated as of September 14, 2001, among USX Corporation, United States Steel LLC and Dan D. Sandman (incorporated by reference to Exhibit 10.11 of United States Steel LLC's Registration Statement on Form S-4 filed September 20, 2001). 10.8 Form of Change of Control Agreements between United States Steel and Various Officers (incorporated by reference to Exhibit 10.12 of United States Steel LLC's Registration Statement on Form S-4 filed September 20, 2001). 23.1 Consent of PricewaterhouseCoopers LLP. \*23.2 Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in opinion filed as Exhibit 5 to this Registration Statement on Form S-4). 23.3 Consent of Miller & Chevalier, Chartered (contained in its opinion filed as Exhibit 8 to this Registration Statement on Form S-4). 24.1 Powers of Attorney, United States Steel LLC. 24.2 Powers of Attorney, USX Corporation. 25.1 Form T-1 Statement of Eligibility of Trustee under the Trust Indenture Act of 1939, as amended, of The Bank of New York, as trustee under the Indenture filed as Exhibit 4.1 to this Registration Statement on Form S-4. \*99.1 Form of Letter of Transmittal for 6.50% Cumulative Convertible Preferred Stock of USX Corporation. \*99.2 Form of Letter of Transmittal for 6.75% Convertible Quarterly Income Preferred Securities of USX Capital Trust I (QUIPSSM). \*99.3 Form of Letter of Transmittal for 8.75% Cumulative Monthly Income Preferred Shares, Series A of USX Capital LLC (MIPS(R)). \*99.4 Form of Notice of Guaranteed Delivery for 6.50% Cumulative Convertible Preferred Stock of USX Corporation. 99.5 Form of Notice of Guaranteed Delivery for 6.75% Convertible Quarterly Income Preferred Securities of USX Capital Trust I (QUIPSSM). 99.6 Form of Notice of Guaranteed Delivery for 8.75% Cumulative Monthly Income Preferred Shares, Series A of USX Capital LLC (MIPS(R)). 99.7 Consents of those named to be directors of United States Steel Corporation. Exhibit Number Description ----- 99.8 Consents of those named to be directors of Marathon Oil Corporation. \*99.9 Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees. \*99.10 Form of Letter to Registered Holders and Depository Trust Company Participants. \*99.11 Exchange Agent Agreement, dated as of [ ], 2001, between United States Steel LLC and The Bank of New York. \*99.12 Form of Letter to Clients. \*99.13 Form of Newspaper Announcement. 99.14 Press Release. ----- \* To be filed by amendment.