

Edgar Filing: USX CORP - Form 425

USX CORP
Form 425
October 22, 2001

Filed by USX Corporation
Pursuant to Rule 425 under the Securities Act of 1933
Subject Company: USX Corporation
Registration Statement No. 333-71454

USX CORPORATION REPORTS MARATHON GROUP
THIRD QUARTER 2001 RESULTS

Earnings Highlights
(Dollars in millions except per diluted share data)

	3Q 2001	3Q 2000
Net income adjusted for special items	\$319	\$356
- per diluted share	\$1.03	\$1.14
Net income	\$193	\$121
Net income per diluted share	\$0.62	\$0.38
Revenues and other income	\$8,336	\$9,228

PITTSBURGH, October 22, 2001 -- USX-Marathon Group (NYSE:MRO) reported third quarter 2001 net income adjusted for special items of \$319 million, or \$1.03 per diluted share, compared with net income adjusted for special items of \$356 million, or \$1.14 per diluted share, in the third quarter of 2000.

The Marathon Group recorded third quarter 2001 net income of \$193 million, or \$0.62 per diluted share, which included a \$126 million after-tax loss primarily related to the complete sale of Marathon's heavy oil assets in Canada. This sale is part of a strategic realignment to focus on Canadian gas assets. Net income in the third quarter of 2000 was \$121 million, or 38 cents per diluted share, which included a \$235 million one-time, non-cash deferred tax charge.

USX Corporation Board Chairman Thomas J. Usher said, "Our downstream refining and marketing segment continued to perform very well this quarter and upstream production levels surpassed our third quarter production targets. However, crude oil and natural gas prices declined by quarter-end."

Marathon Group revenues were \$8.3 billion in third quarter 2001 compared to

Edgar Filing: USX CORP - Form 425

\$9.2 billion in third quarter 2000.

Income for Marathon's reportable segments was \$840 million in third quarter 2001 versus \$776 million in third quarter 2000.

Worldwide exploration and production (upstream) segment income totaled \$259 million in third quarter 2001 compared to \$465 million in third quarter 2000. The decrease was primarily due to lower crude oil and natural gas prices and increased depreciation, partially offset by reduced exploration expense primarily resulting from the timing of well expenditures and reduced geophysical contract expenditures.

Domestic upstream income was \$210 million in third quarter 2001 compared to \$305 million in third quarter 2000.

International upstream income was \$49 million in third quarter 2001 compared to \$160 million in third quarter 2000. The East Foinaven field, located in the U.K. Atlantic Margin, commenced production in late September and is currently flowing at a gross rate of 16,000 barrels per day. Marathon acquired a 28 percent interest in Foinaven and a 47 percent interest in East Foinaven in the trade with Shell for Marathon's interest in Sakhalin Energy in late 2000. Through third quarter 2001, the Foinaven fields have produced an average 21,500 net barrels per day of liquid hydrocarbons.

Marathon's Gulf of Mexico exploration drilling program was delayed due to the previously announced cancellation of the contract for the Cajun Express rig. The two wells expected to be drilled with the Cajun Express rig have been delayed until December 2001 and January 2002. However, Marathon has been able to participate in or accelerate the drilling of other prospects. The Deep Ozona (Garden Banks 515) and Timber Wolf (Mississippi Canyon 555) prospects are currently drilling and are expected to reach total depth in the fourth quarter. The Paris Carver (Green Canyon 601) prospect is expected to spud late in the fourth quarter with drilling continuing into 2002. Marathon's international drilling program is proceeding on schedule with a shallow-water Nova Scotia well currently drilling, and with Angola and Nova Scotia deepwater wells expected to spud in the fourth quarter.

Edgar Filing: USX CORP - Form 425

Marathon's fourth quarter production is expected to be approximately 415 to 420 thousand barrels of oil equivalent per day. Full year 2001 production is expected to be approximately 420 thousand barrels of oil equivalent per day. For 2002, Marathon's production is expected to average between 430 and 435 thousand barrels of oil equivalent per day.

On August 23, 2001, Marathon announced plans to develop a strategic alliance with Yukos Oil Company, the second largest Russian oil company. As part of the alliance, a joint business development group will be formed to evaluate international investment opportunities. On August 29, 2001, Marathon announced agreements with Statoil, Norsk Hydro and TotalFinaElf to acquire varied interests in five licenses in the Norwegian Sector of the North Sea. The portfolio additions include several undeveloped discoveries close to Marathon's existing infrastructure positions in the Heimdal and Brae areas of the North Sea. The transactions are subject to necessary approvals from the Norwegian authorities.

Refining, marketing and transportation (downstream) segment income was \$575 million in third quarter 2001 compared to \$299 million in third quarter 2000 reflecting a higher refining and wholesale marketing gross margin, partially offset by lower Speedway SuperAmerica LLC (SSA) gasoline and distillate sales volumes and increased refining and marketing transportation expenses.

Pilot Travel Centers LLC (PTC), a joint venture owned 50 percent each by Marathon Ashland Petroleum LLC (MAP) and Pilot Corporation, began operations on September 1, 2001. MAP, through its wholly owned retail unit SSA, contributed 94 travel centers in the formation of PTC. PTC is now the largest travel center network in the United States with more than 235 locations. The new venture, based in Knoxville, Tennessee, has approximately 11,000 employees.

The Garyville, Louisiana refinery coker achieved mechanical completion in early October and is currently operating at more than 80 percent of capacity. The coker is anticipated to be at full production during the fourth quarter of this year. This new unit will allow the Garyville refinery to use heavier, lower cost crude and reduce the production of heavy fuel oil.

Edgar Filing: USX CORP - Form 425

The proposed separation of the Marathon Group and the U. S. Steel Group into two independent companies is subject to approval at a special meeting of stockholders to be held on October 25. The separation is also subject to several other conditions including receipt of a favorable ruling from the Internal Revenue Service as to the tax-free status of the separation. The separation is expected to occur at year-end, subject to the absence of any materially adverse change in business conditions for the energy and/or steel business, delay in obtaining the IRS ruling or other unfavorable circumstances. Shareholders should note that failure to cast a vote will have the same effect as voting against the separation. Shareholders may vote in person, by returning their proxy card, or by telephone or Internet.

This release contains forward-looking statements with respect to the exploration drilling program, timing and levels of Marathon's worldwide liquid hydrocarbon and natural gas production, the planned alliance with Yukos Oil Company, the plan to acquire interests in licenses in the Norwegian sector of the North Sea, and the full operation of the Garyville coker. Some factors that could potentially affect the exploration drilling program and worldwide liquid hydrocarbon and natural gas production include acts of war or terrorist acts and the governmental or military response thereto, pricing, supply and demand for petroleum products, amount of capital available for exploration and development, regulatory constraints, timing of commencing production from new wells, drilling rig availability and other geological, operating and economic considerations. Some factors that could affect the planned alliance with Yukos Oil Company include the execution and closing of definitive agreements, and the receipt of government approvals. The realization of anticipated benefits is dependent upon the effectiveness of the mutual alliance and future economic conditions. Some factors that could affect the plan to acquire interests in licenses in the Norwegian sector of the North Sea include the execution and closing of definitive agreements, and the receipt of necessary approvals from the Norwegian authorities. Some factors that could impact the Garyville coker project include

Edgar Filing: USX CORP - Form 425

unanticipated operational issues. In accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, USX has included in Form 10-K for the year ended December 31, 2000, as amended in Forms 10-K/A, and in subsequent Forms 10-Q and Forms 8-K, cautionary statements identifying important factors, but not necessarily all factors, that could cause actual results to differ materially from those set forth in the forward-looking statements.

A Statement of Operations and Preliminary Supplemental Statistics for the Marathon Group and a Consolidated Statement of Operations for USX Corporation are attached.

The company will conduct a conference call on third quarter earnings on Monday, October 22 at 1 p.m. EDT. To listen to the webcast of the conference call, visit the USX website, www.usx.com and click on the "Marathon Group" button, then the "Investor Services" button. Replays of the webcast will be available through October 29.

MARATHON GROUP OF USX CORPORATION STATEMENT OF OPERATIONS (Unaudited)

	Third Quarter Ended September 30		Nine Months Ended September 30	
(Dollars in millions, except per share amounts)	2001	2000	2001	2000
<hr/>				
REVENUES AND OTHER INCOME:				
Revenues	\$8,502	\$9,169	\$26,243	\$25,588
Dividend and investee income	34	40	106	68
Net gains (losses) on disposal of assets	(207)	2	(185)	104
Other income	7	17	83	33
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues and other income	8,336	9,228	26,247	25,793
<hr/>				
COSTS AND EXPENSES:				
Cost of revenues (excludes items shown below)	6,046	6,864	18,482	18,927
Selling, general and administrative expenses	171	151	497	409
Depreciation, depletion and amortization	302	241	911	727
Taxes other than income taxes	1,217	1,192	3,541	3,474
Exploration expenses	20	51	69	142
	<hr/>	<hr/>	<hr/>	<hr/>
Total costs and expenses	7,756	8,499	23,500	23,679
<hr/>				
INCOME FROM OPERATIONS	580	729	2,747	2,114
Net interest and other financial costs	36	53	109	192

Edgar Filing: USX CORP - Form 425

Minority interest in income of Marathon Ashland Petroleum LLC	223	115	650	373
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	321	561	1,988	1,549
Provision for income taxes	128	440	705	807
	-----	-----	-----	-----
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	193	121	1,283	742
Cumulative effect of change in accounting principle	-	-	(8)	-
	-----	-----	-----	-----
NET INCOME	\$193	\$121	\$1,275	\$742
	=====	=====	=====	=====

MARATHON STOCK DATA:

Income before cumulative effect of change in accounting principle	\$193	\$121	\$1,283	\$742
- Per share - basic	.63	.38	4.16	2.38
- diluted	.62	.38	4.15	2.37
Cumulative effect of change in accounting principle	-	-	(8)	-
- Per share - basic	-	-	(.03)	-
- diluted	-	-	(.03)	-
Net income	\$193	\$121	\$1,275	\$742
- Per share - basic	.63	.38	4.13	2.38
- diluted	.62	.38	4.12	2.37
Dividends paid per share	.23	.23	.69	.65
Weighted average shares, in thousands				
- Basic	309,309,311	847,309,056	312,068	
- Diluted	309,923,312	094,309,452	312,272	

The following notes are an integral part of this financial statement.

MARATHON GROUP OF USX CORPORATION
SELECTED NOTES TO FINANCIAL STATEMENT

1. The statement of operations of the Marathon Group includes the results of operations for the businesses of Marathon Oil Company (Marathon) and certain other subsidiaries of USX and a portion of USX's net financial costs, general and administrative costs and income taxes attributed to the groups in accordance with USX's accounting and tax allocation policies. This statement should be read in connection with the consolidated statement of operations of USX.

2. Effective January 1, 2001, USX 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 requires recognition of all derivatives as either assets or liabilities at fair value.

The transition adjustment related to adopting SFAS No. 133 on January 1, 2001, was recognized as a cumulative effect of change in accounting principle. The unfavorable cumulative effect on net income, net of a tax benefit of \$5 million, was \$8 million. The unfavorable cumulative effect on other comprehensive income (OCI), net of a tax benefit of \$4 million, was \$8 million. The amounts reported as OCI will be reflected in net income when the anticipated physical transactions are consummated.

Edgar Filing: USX CORP - Form 425

3. In the first quarter 2001, Marathon acquired Pennaco Energy, Inc. (Pennaco), a natural gas producer. Marathon acquired 87% of the outstanding stock of Pennaco through a tender offer completed on February 7, 2001 at \$19 a share. On March 26, 2001, Pennaco was merged with a wholly owned subsidiary of Marathon. Under the terms of the merger, each share not held by Marathon was converted into the right to receive \$19 in cash. The total purchase price of Pennaco was \$506 million. The acquisition was accounted for under the purchase method of accounting. Results of operations for the nine months of 2001 include the results of Pennaco from February 7, 2001.
4. In the third quarter of 2001, the Marathon Group recorded a \$221 million pretax loss related to the sale of Marathon's heavy oil assets in Canada, which is included in net gains (losses) on disposal of assets.
5. 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.

MARATHON GROUP OF USX CORPORATION
SELECTED NOTES TO FINANCIAL STATEMENT (Continued)

6. 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, directly and indirectly, owns and operates the businesses of the USX-U. S. Steel Group. The reorganization will not have any impact on the results of operations or financial position of USX Corporation, the Marathon Group or the U. S. Steel Group.

This reorganization in corporate form was independent of the Proposed Separation of the energy and steel businesses of USX Corporation.

MARATHON GROUP OF USX CORPORATION
PRELIMINARY SUPPLEMENTAL STATISTICS (Unaudited)

Third Quarter Ended	Nine Months Ended
------------------------	----------------------

Edgar Filing: USX CORP - Form 425

(Dollars in millions)	September 30		September 30	
	2001	2000	2001	2000
<hr style="border-top: 1px dashed black;"/>				
INCOME (LOSS) FROM OPERATIONS				
Exploration & Production ("E&P")				
Domestic	\$210	\$305	\$1,012	\$783
International	49	160	292	347
	-----	-----	-----	-----
Income For E&P Reportable Segment	259	465	1,304	1,130
Refining, Marketing & Transportation(a)	575	299	1,693	968
Other Energy Related Businesses(b)	6	12	38	25
	-----	-----	-----	-----
Income For Reportable Segments	\$840	\$776	\$3,035	\$2,123
 Items Not Allocated To Segment				
Administrative Expenses	\$(39)	\$(48)	\$(104)	\$(105)
Gain on disposition of Angus/Stellaria	-	-	-	87
Gain on lease resolution with U.S. Government	-	-	59	-
Gain/(loss) on ownership change - MAP	1	1	(5)	9
Loss related to sale of certain Canadian assets	(221)	-	(221)	-
Costs related to proposed separation(c)	(1)	-	(17)	-
	-----	-----	-----	-----
Marathon Group Income From Operations	\$580	\$729	\$2,747	\$2,114
 CAPITAL EXPENDITURES				
Exploration & Production	\$219	\$153	\$593	\$553
Refining, Marketing & Transportation	153	149	365	315
Other(d)	20	-	62	10
	-----	-----	-----	-----
Total	\$392	\$302	\$1,020	\$878
 EXPLORATION EXPENSE				
Domestic	\$9	\$33	\$34	\$84
International	11	18	35	58
	-----	-----	-----	-----
Total	\$20	\$51	\$69	\$142
 OPERATING STATISTICS				
Net Liquid Hydrocarbon Production(e):				
United States	124.1	129.4	124.9	131.7
Europe	52.3	26.3	47.0	28.2
Other International	23.8	42.8	30.0	37.3
	-----	-----	-----	-----
Total Consolidated	200.2	198.5	201.9	197.2
Domestic Equity Investee (MKM Partners L.P.)	9.0	-	9.5	-
International Equity Investees (CLAM & Sakhalin Energy) (f)	0.1	24.4	0.1	9.1
	-----	-----	-----	-----
Worldwide	209.3	222.9	211.5	206.3
 Net Natural Gas Production(g):				
United States	751.8	715.5	771.4	726.1
Europe(h)	301.4	306.2	322.0	333.1
Other International	119.1	144.8	125.4	144.8
	-----	-----	-----	-----
Total Consolidated	1,172.3	1,166.5	1,218.8	1,204.0
International Equity Investee (CLAM)	26.4	21.4	31.6	28.0

Edgar Filing: USX CORP - Form 425

Worldwide	1,198.7	1,187.9	1,250.4	1,232.0
Average Equity Sales Prices (i) (j) :				
Liquid Hydrocarbons (per Bbl)				
Domestic	\$21.33	\$26.58	\$21.80	\$24.85
International	24.19	28.84	24.95	26.87
Natural Gas (per Mcf)				
Domestic	\$2.49	\$3.61	\$3.98	\$2.90
International	2.30	2.59	3.07	2.47

MARATHON GROUP OF USX CORPORATION
PRELIMINARY SUPPLEMENTAL STATISTICS (Unaudited)

	Third Quarter Ended September 30 2001		Nine Months Ended September 30 2000	
--	------------------------------------------------	--	----------------------------------------------	--

OPERATING STATISTICS (continued)

MAP:

Crude Oil Refined(e)	961.1	928.4	930.0	915.0
Consolidated Refined Products Sold(e) (n)	1343.8	1350.0	1300.3	1304.6
Matching buy/sell volumes included in refined products sold(e)	43.0	43.5	43.8	55.3
Refining and Wholesale				
Marketing Margin(k) (l)	\$0.1314	\$0.0670	\$0.1347	\$0.0753
Number of SSA retail outlets(o)	2,145	2,288	-	-
SSA Gasoline and Distillate Sales(m) (o)	916	965	2,657	2,802
SSA Gasoline and Distillate				
Gross Margin(k) (o)	\$0.1331	\$0.1289	\$0.1230	\$0.1287
SSA Merchandise Sales(o)	\$607	\$588	\$1,669	\$1,643
SSA Merchandise Gross Margin(o)	\$137	\$136	\$387	\$387

(a) Includes MAP at 100%. RM&T income for reportable segments includes Ashland's 38% interest in MAP of \$223 million, \$114 million, \$651 million and \$372 million in the third quarter and nine month year-to-date 2001 and 2000, respectively.

(b) Includes domestic natural gas and crude oil marketing and transportation, and power generation.

(c) Includes professional fees and expenses, and certain other costs related to the proposed separation.

(d) Includes other energy related businesses and corporate capital expenditures.

(e) Thousands of barrels per day

(f) In 2001, equity investee is CLAM and in 2000, equity investees are CLAM and Sakhalin Energy.

(g) Millions of cubic feet per day

(h) Includes gas acquired for injection and subsequent resale of 6.8, 9.3, 8.3 and 11.7 mmcfd in the third quarter and nine month year-to-date 2001 and 2000, respectively.

(i) Prices exclude gains and losses from hedging activities.

(j) Prices exclude equity affiliates and purchase/resale gas.

(k) Per gallon

(l) Sales revenue less cost of refinery inputs, purchased products and manufacturing expenses, including depreciation.

(m) Millions of gallons

(n) Total average daily volume of all refined product sales to MAP's wholesale, branded and retail (SSA) customers.

(o) Excludes travel centers contributed to Pilot Travel Center

Edgar Filing: USX CORP - Form 425

LLC. Periods prior to September 1, 2001, have been restated.

USX CORPORATION AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

	Third Quarter Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2001	2000	2001	2000
REVENUES AND OTHER INCOME:				
Revenues	\$10,139	\$10,607	\$31,099	\$30,207
Dividend and investee income	45	46	157	81
Net gains (losses) on disposal of assets	(203)	8	(165)	138
Other income	7	18	85	32
Total revenues and other income	9,988	10,679	31,176	30,458
COSTS AND EXPENSES:				
Cost of revenues (excludes items shown below)	7,557	8,184	23,108	23,107
Selling, general and administrative expenses	178	95	516	233
Depreciation, depletion and amortization	396	310	1,157	949
Taxes other than income taxes	1,282	1,250	3,732	3,650
Exploration expenses	20	51	69	142
Total costs and expenses	9,433	9,890	28,582	28,081
INCOME FROM OPERATIONS	555	789	2,594	2,377
Net interest and other financial costs	74	80	183	267
Minority interest in income of Marathon Ashland Petroleum LLC	223	115	650	373
Total income from operations	852	984	3,427	3,017
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	258	594	1,761	1,737
Provision for income taxes	88	454	522	877
Total income before income taxes and cumulative effect of change in accounting principle	170	140	1,239	860
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	170	140	1,239	860
Cumulative effect of change in accounting principle	-	-	(8)	-
Total income before cumulative effect of change in accounting principle	170	140	1,231	860
NET INCOME	170	140	1,231	860
Dividends on preferred stock	2	2	6	6
Total net income	168	138	1,225	854
NET INCOME APPLICABLE TO COMMON STOCKS	\$168	\$138	\$1,225	\$854

USX CORPORATION AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENT OF OPERATIONS (Continued) (Unaudited) INCOME PER COMMON SHARE

	Third Quarter Ended September 30		Nine Months Ended September 30	
(Dollars in millions,				

Edgar Filing: USX CORP - Form 425

except per share amounts)	2001	2000	2001	2000

APPLICABLE TO MARATHON STOCK:				
Income before cumulative effect of change in accounting principle	\$193	\$121	\$1,283	\$742
- Per share - basic	.63	.38	4.16	2.38
- diluted	.62	.38	4.15	2.37
Cumulative effect of change in accounting principle	-	-	(8)	-
- Per share - basic	-	-	(.03)	-
- diluted	-	-	(.03)	-
Net income	\$193	\$121	\$1,275	\$742
- Per share - basic	.63	.38	4.13	2.38
- diluted	.62	.38	4.12	2.37
Dividends paid per share	.23	.23	.69	.65
Weighted average shares, in thousands				
- Basic	309,309	311,847	309,056	312,068
- Diluted	309,923	312,094	309,452	312,272
APPLICABLE TO STEEL STOCK:				
Net income (loss)	\$(25)	\$17	\$(50)	\$112
- Per share - basic	(.28)	.19	(.56)	1.27
- diluted	(.28)	.19	(.57)	1.27
Dividends paid per share	.10	.25	.45	.75
Weighted average shares, in thousands				
- Basic	89,193	88,738	89,003	88,554
- Diluted	89,193	88,738	89,003	88,556

The following notes are an integral part of this financial statement.

USX CORPORATION AND SUBSIDIARY COMPANIES
SELECTED NOTES TO FINANCIAL STATEMENT

1. Effective January 1, 2001, USX adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which was amended by SFAS Nos. 137 and 138. This Standard requires recognition of all derivatives as either assets or liabilities at fair value.

The transition adjustment related to adopting SFAS No. 133 on January 1, 2001, was recognized as a cumulative effect of change in accounting principle. The unfavorable cumulative effect on net income, net of a tax benefit of \$5 million, was \$8 million. The unfavorable cumulative effect on other comprehensive income (OCI), net of a tax benefit of \$4 million, was \$8 million. The amounts reported as OCI will be reflected in net income when the

Edgar Filing: USX CORP - Form 425

anticipated physical transactions are consummated.

2. In the first quarter 2001, Marathon Oil Company (Marathon) acquired Pennaco Energy, Inc. (Pennaco), a natural gas producer. Marathon acquired 87% of the outstanding stock of Pennaco through a tender offer completed on February 7, 2001 at \$19 a share. On March 26, 2001, Pennaco was merged with a wholly owned subsidiary of Marathon. Under the terms of the merger, each share not held by Marathon was converted into the right to receive \$19 in cash. The total purchase price of Pennaco was \$506 million. The acquisition was accounted for under the purchase method of accounting. Results of operations for the nine months of 2001 include the results of Pennaco from February 7, 2001.

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 nine 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, USX became sole owner of Transtar and certain of its subsidiaries. Holdings became owner of the other subsidiaries of Transtar. USX accounted for the change in its ownership interest in Transtar using the purchase method of accounting. USX recognized in the nine months of 2001, a pretax gain of \$68 million (included in dividend and investee income) and a favorable deferred tax adjustment of \$33 million related to this transaction. USX previously accounted for its investment in Transtar under the equity method of accounting.

3. USX 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, USX discontinued applying the equity method since investments in and advances to Republic had been reduced to zero. Also, USX 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, USX recorded a pretax charge of \$74 million for potentially uncollectible receivables from Republic.

USX CORPORATION AND SUBSIDIARY COMPANIES
SELECTED NOTES TO FINANCIAL STATEMENT (Continued)

4. In the third quarter of 2001, the Marathon Group recorded a \$221 million pretax loss related to the sale of Marathon's heavy oil assets in Canada, which is included in net gains (losses) on disposal of assets.
5. On August 14, 2001, USX announced its intention to permanently close the cold rolling and tin mill operations at U. S. Steel's

Edgar Filing: USX CORP - Form 425

Fairless Works. In the third quarter of 2001, USX recorded a pretax charge of \$29 million relative to the shutdown.

6. 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.
7. 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, directly and indirectly, owns and operates the businesses of the USX-U. S. Steel Group. The reorganization will not have any impact on the results of operations or financial position of USX Corporation, the Marathon Group or the U. S. Steel Group.

This reorganization in corporate form was independent of the Proposed Separation of the energy and steel businesses of USX Corporation.