EFiled: Aug 05 2019 04:08PM EDT
Transaction ID 64058067
Case No. 2019-0602-

**IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE**

| | |
|---|---|
| RICHARD HOSKINS, Derivatively on Behalf of Nominal Defendant U.S. STEEL CORPORATION,<br><br>Plaintiff,<br><br>v.<br><br>MARIO LONGHI, DAVID BURRITT, DAN LESNAK, DAVID S. SUTHERLAND, PATRICIA DIAZ DENNIS, DAN O. DINGES, JOHN J, ENGEL, MURRAY S. GERBER, STEPHEN J. GIRSKY, PAUL A. MASCARENAS, EUGENE B, SPERLING, PATRICIA S. TRACEY, and JOHN V. FARACI,<br><br>Defendants,<br><br>and<br><br>U.S. STEEL CORPORATION,<br><br>Nominal Defendant. | C.A. No. 2019- |

**VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT**

Plaintiff Richard Hoskins ("Plaintiff" or "Hoskins"), by and through his undersigned attorneys, brings this shareholder derivative action for the benefit of Nominal Defendant U.S. Steel Corporation ("U.S. Steel" or the "Company"), against certain of the Company's officers and members of the Board of Directors

(the "Board") seeking to remedy Defendants' (as defined below) breaches of fiduciary duties, waste of corporate assets, and unjust enrichment. Plaintiff makes these allegations upon personal knowledge and the investigation of counsel, which includes without limitation: (a) review and analysis of public filings made by U.S. Steel and other related parties and non-parties with the United States Securities and Exchange Commission ("SEC"); (b) review of news articles, shareholder communications, and postings on U.S. Steel's website; (c) review of the pleadings and other documents, including but not limited to the Order denying in part Defendants' Motion to dismiss in the securities class action captioned *Vrakas v. United States Steel Corporation, et al.*, Case No. 2:17-cv-00579-CB (W.D. Penn.) (the "Securities Class Action"); and (d) review of other publicly available information concerning U.S. Steel and the Defendants.

## I. SUMMARY OF THE ACTION

1. U.S. Steel, headquartered in Pittsburgh, Pennsylvania, is an integrated steel producer of flat-rolled and tubular products with major production operations in North America and Europe. The flat-rolled segment accounts for approximately 70% of the Company's net sales. U.S. Steel supplies customers throughout the world, primarily in the automotive, consumer, industrial, and oil country tubular goods markets. The Company has an annual raw steel production capability of 22 million net tons (17 tons in the United States and 5 million tons in Europe).

2. Following multiple unprofitable years, in 2014, Defendant Mario Longhi hired his longtime trusted advisor, McKinsey & Company ("McKinsey"), to enact a purported "transformational process" intended to make the Company profitable again. This process was referred to as the "Carnegie Way," named after U.S. Steel co-founder Andrew Carnegie. The Carnegie Way purportedly involved three elements: (1) Employee Engagement, which was intended to get personnel interested in and engaged with the Carnegie Way program; (2) Reliability Centered Maintenance ("RCM"), which was purportedly focused on making proactive improvements to U.S. Steel's manufacturing operations and facilities; and (3) Operational Excellence, which was related to process improvements that could save the Company money (e.g., cutting costs).

3. However, the Company's "tone at the top" was not one that emphasized the Carnegie Way initiative. Indeed, according to confidential witnesses in the Securities Class Action, the Carnegie Way was a fraud. Although the Carnegie Way purportedly involved three elements, it was widely known throughout the Company that the only element actually enacted was Operational Excellence which, according to Plaintiffs' confidential sources in the Securities Class Action, was "***all about cost cutting [] at the expense of operations***." Indeed, U.S. Steel severely abridged the maintenance initiative because that would cost money. According to confidential sources, U.S. Steel adopted a motto of "don't

buy, get by" in which plant managers were only permitted to purchase parts when absolutely necessary and were required to "jury-rig" machines to keep them operating, instead of making the necessary repairs. Thus, U.S. Steel employees characterized the Reliability and Employee Engagement elements as "a joke" and "a load of crap" because the Company was not committed to them because that would cost money. According to confidential sources, U.S. Steel adopted a motto of "don't buy, get by" in which plant managers were only allowed to purchase parts when absolutely necessary and were required to "jury-rig" machines to keep them operating, rather than making the necessary repairs. Thus, U.S. Steel employees characterized the Reliability and Employee Engagement elements as "a joke" and "a load of crap" because the Company was not committed to them.

4. In 2015, as the steel market disintegrated, U.S. Steel enacted extreme cost-cutting measures under the guise of the Carnegie Way in an effort to enhance the bottom line. These extreme cost-cutting measures focused on massive layoffs and deferring desperately-needed maintenance and repairs. These measures left U.S. Steel with a skeleton crew of inexperienced plant employees who did not know how to maintain or repair the equipment, were required to work long hours of up to ninety hours per week, and which led to severe unplanned outages (e.g., downtime resulting in lost production), production delays and at least a 20% decline in production output due to U.S. Steel's equipment failing and becoming

inoperable. These unplanned outages occurred "quarter after quarter" and could last as long as nine months. U.S. Steel also reduced overall capital spending and spending for the flat-rolled segment in 2016 ***by approximately 39% and 60%***, respectively.

5. Starting on about January 27, 2016 and continuing until they were exposed on April 25, 2017 (the "Relevant Period")[1], the Individual Defendants made and/or caused the Company to make false and misleading statements concerning the Company's business model, financial prospects, and operational and compliance policies, including failing to disclose, *inter alia*: U.S. Steel's decision to defer maintenance, repairs and capital spending proved costly, causing "thousands of tons of missed steel production" during the Relevant Period, or about 20% of production capacity, due to increasing unplanned outages and repairs. As such, the Company's capability utilization (the amount of steel tons actually produced as a percentage of total production capacity) dropped as low as 57%, as compared to the industry average of 80%; (iii) deficiencies in U.S. Steel's internal controls; and (iv) that as a result of the foregoing, U.S. Steel's public statements were materially false and misleading at all relevant times. One

[1] The materially misleading statements and/or omissions were issued in the Company's financial reports and other public filings and releases from approximately January 27, 2017 to April 25, 2017; however, the wrongs complained of herein continue through to the present as the Company's internal controls remain deficient.

confidential witness in the Securities Class Action stated that the loss in production in 2016 was the most this witness had ever seen during this witness' more than twenty years with U.S. Steel.

6. The Individual Defendants were cognizant that U.S. Steel was experiencing major and costly unplanned outages and massive delays in production throughout the Relevant Period through a Daily Report of Operations (the "DRO") and an Operating Efficiency Report ("OER"). According to confidential sources, the DRO was "well accessible" and "used widely" by those within the Company, including the Individual Defendants, who could access both the DRO and OER at the click of a button on U.S. Steel's internal website. The DRO and OER reported aggregated operational data and metrics from all of U.S. Steel's plants and included key metrics such as tons produced, tons shipped, production delay, and tons per turn. These metrics revealed that, throughout the Relevant Period, U.S. Steel was experiencing production delays of as much of 50% and actual production was "not even close" to planned production as a result of unplanned interruptions.

7. Yet throughout the Relevant Period, U.S. Steel repeatedly assured investors that U.S. Steel was implementing the RCM initiative:

> We ***continue to implement our reliability centered maintenance process across all of our facilities. We are starting to see the benefits as we have experienced fewer unplanned outages and lower maintenance costs***, and are allowing for a more efficient allocation of our maintenance labor force. ***We are creating a more reliable and agile operating base*** that lowers our break-even point, with a key

> focus on lowering our hot-rolled band costs through operating and process efficiencies.

(Emphasis added). U.S. Steel also falsely claimed that the Carnegie Way was "much more than a cost cutting initiative" and that U.S. Steel was actively investing in RCM:

> [The Carnegie Way] is ***much more than a cost cutting initiative***, improving all our core business processes, including commercial, manufacturing, supply chain, procurement, innovation, and functional support. Carnegie Way is our culture and the way we run the business. . . We have achieved ***sustainable cost improvements through process efficiencies and our investments in reliability centered maintenance (RCM)***, and we will continue to find process improvements that enable us to better serve our customers and reward our stakeholders.

(Emphasis added).

8. Despite these assurances; however, in truth, extreme cost-cutting was the only Carnegie Way initiative U.S. Steel were enacting.

9. While the global steel economy improved throughout 2016, U.S. Steel was unable to seize on these more favorable market conditions as a result of mounting repair costs and unplanned outages.

10. On August 15, 2016, just two months before U.S. Steel provided the first indication that it was experiencing unplanned outages in the third quarter of 2016 due to "operating challenges," the Board through the Company performed a well-timed secondary offering of 21.7 million shares sold to unsuspecting investors, raising proceeds of $482 million. At the time of the offering, Defendants stated that the proceeds would be used for "financial flexibility, capital expenditures and other general corporate purposes." As U.S. Steel would

ultimately concede, however, "[w]e issued equity last August to give us the financial strength and liquidity ***to position us to establish an asset revitalization plan <u>large enough</u> to resolve our issues***, and to see that plan through to completion." (Emphasis added). In other words, U.S. Steel were admittedly aware back in August 2016 that U.S. Steel would need to undertake a "large," multi-year "asset-revitalization" in order to fix the Company's problems – a known fact that was not disclosed to investors until the last day of the Relevant Period.

11. On November 1, 2016, U.S. Steel issued a press release reporting the Company's third quarter 2016 financial results. For the first time, U.S. Steel acknowledged that the Company had been experiencing "unplanned outages in the third quarter [of 2016]," which negatively affected the Flat-Rolled segment's shipments to the tune of 125,000 tons, or around 5% of the Company's third quarter shipments in this segment.

12. During a November 2, 2016 analyst call the next day, Defendant Longhi flatly denied that the unplanned outages were due to under-investing and assured investors that U.S. Steel was "doing all of the right things:"

13. However, U.S. Steel's sworn testimony prior to the International Trade Commission ("ITC") in 2015 and early 2016 painted a very different picture. Behind closed doors before the ITC, U.S. Steel admitted that: "investments that we need to make are being – ***we're not able to make them right now***;" and that, while

"U.S. Steel had an opportunity to grow its business to reinvest in technology . . . subject ***imports deprived U.S. Steel*** . . . ***of this opportunity***; and U.S. Steel's financial results were "***nowhere near*** where they need to be for us to invest in our future." (Emphasis added).

14. While masking the true condition of U.S. Steel's business from the market, starting on November 23, 2016, Defendants Longhi and David Burritt dumped ***approximately 57% and 64% of their personal holdings of U.S. Steel stock, respectively, collectively selling 699,671 shares for proceeds of approximately $25 million over eight trading days***. Before this, neither Longhi nor Burritt had sold a single share of their U.S. Steel stock.

15. As market conditions continued to improve in 2017, U.S. Steel assured investors that the worst was behind the Company and U.S. Steel was "continuing to improve" and was "positioned for success in a market recovery."

16. Then, on April 25, 2017, following the close of the market, U.S. Steel stunned the market when the Company announced its first quarter 2017 results. While the market was expecting the Company to turn a strong profit, U.S. Steel announced a "surprise" net loss of $180 million, or $1.03 per diluted share. Commenting on results, U.S. Steel Chief Executive Officer ("CEO") Mario Longhi said, "While our segment results improved by over $200 million compared with the first quarter of 2016, ***operating challenges at our Flat-Rolled facilities***

***prevented us from benefiting fully from improved market conditions***." (Emphasis added).

17. Upon the news, the price of U.S. Steel common stock dropped from a closing share price of $31.11 on April 25, 2017 to close at $22.78 per share on April 26, 2017, ***a loss of 27% or over $2 billion in market value, on extremely heavy trading volume***, representing the steepest drop in price since 1991.

18. Analysts responded negatively to this news. In an April 26, 2017 research note, Analyst Gordon Johnson II of Axiom Capital Management described the Company's "surprise" $180 million loss as "all the more troubling given that it occurred in a market where U.S. steel prices are high versus previous years and given that the industry has enjoyed significant protection from imports from both the Obama and Trump administrations." Gordon proceeded to state "***[i]f things are so bad during good times (the remainder of the year) looks set to resemble a 'Nightmare on Elm Street***.'" (Emphasis added).

19. KeyBanc analysts stated that U.S. Steel's results were not an indictment on the steel industry's fundamentals but, rather, appeared to be ***Company-specific***.

20. Analyst Chuck Bradford of Bradford Research Inc. stated in an interview with American Metal Market that, in his view, "Longhi spent too much

time lobbying for trade relief in Washington and not enough time focusing on fixing the company's mills."

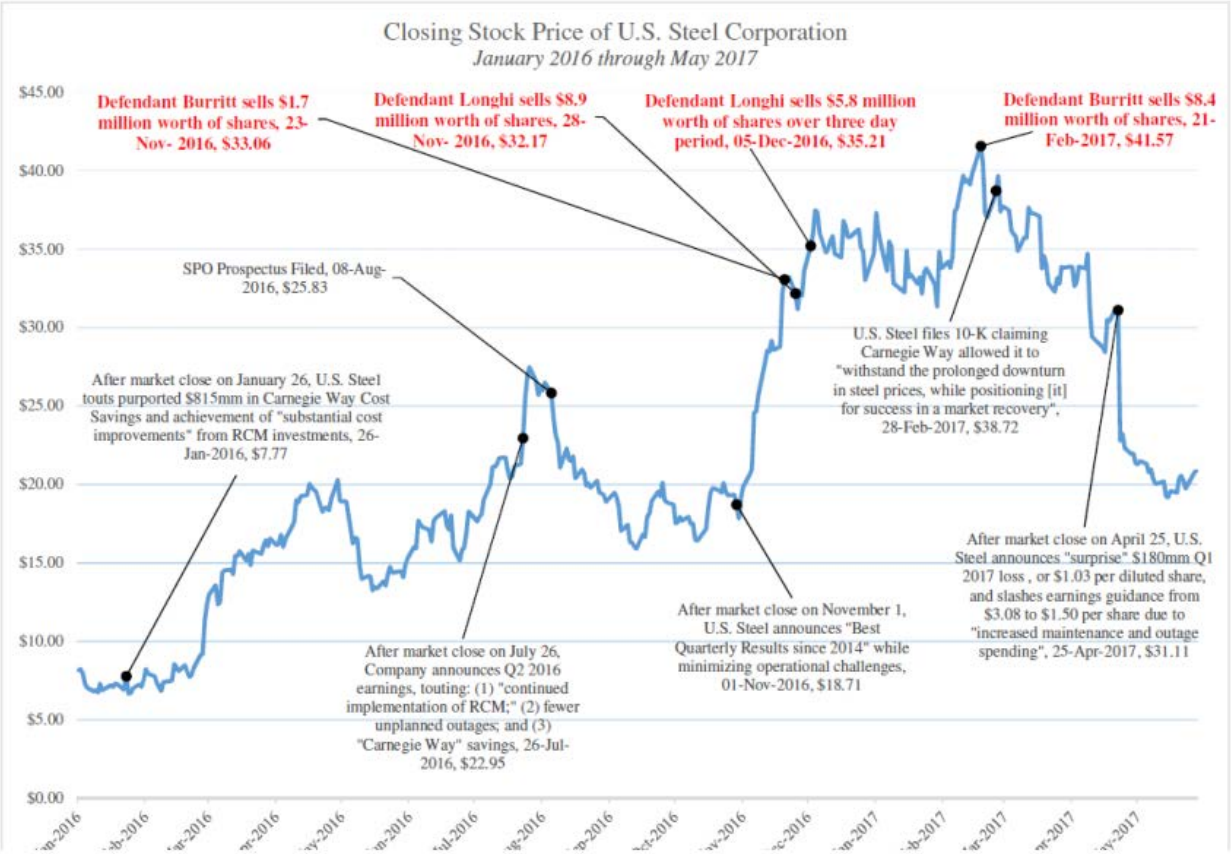
21. Another analyst stated that the Carnegie Way initiative "cut too deep" and criticized U.S. Steel for its lack of transparency to investors:

> U.S. Steel blamed the loss on production problems at its North American flatrolled mills. Those problems appear to be centered around the company's rolling operations, although it's hard to say that with certainly because investors have been kept largely in the dark . . . . These issues that they've had last year and into this year have not been clearly described.

(Emphasis added).

22. Due to years of under-investment and under performance, on May 10, 2017, U.S. Steel announced the purported "retirement" of Defendant Longhi, who was replaced as CEO by Defendant Burritt. Despite layoffs, plant closures, lack of profit, under-invested facilities and equipment, and a reported net loss for the 2016 fiscal year of $440 million, Longhi received a $4.35 million bonus for the 2016 fiscal year – his largest bonus ever.

23. As illustrated in the stock chart below, Defendants Longhi and Burritt sold more than half of their personal holdings of U.S. Steel common stock at a time when they could take advantage of improving market conditions but, as a result of their decision to slash maintenance and capital spending, U.S. Steel could not.




24. In accordance with Delaware law, on January 8, 2018, Plaintiff Richard Hoskins made a written demand on U.S. Steel's Board of Directors (the "Board") to investigate and, if warranted, take necessary legal action against those responsible for the damages the Company has suffered in connection with the events underlying the Securities Class Action (the "Demand").[2]

[2] The initial demand was pursued by Darlene Spencer, a shareholder of U.S. Steel. On January 11, 2019, counsel for Plaintiff and Ms. Spencer informed the Company, through its outside counsel, that the demand letter previously submitted to the Board of Directors on behalf of Ms. Spencer would no longer be pursued by Ms. Spencer, and would instead be pursued by Plaintiff in this Action. On May 2, 2019, the Company acknowledged via letter from the Company's General Counsel that Plaintiff would now be pursuing the demand in place of Ms. Spencer.

25. As discussed in detail below, the Board's response to Plaintiff's Demand (or lack thereof) was wrongful and unreasonable under Delaware law. Indeed, even though the Board was presented with the opportunity to engage in an independent investigation of the serious allegations of wrongdoing and meritorious claims alleged in Plaintiff's Demand, the Board failed each time and in every regard.

26. For instance, the Board took over eight months to issue a substantive response, despite the fact that federal securities fraud claims had already been sustained in the Securities Class Action, and despite the deadlines set by the Board itself.

27. More egregiously, when the Board finally did belatedly respond to the Demand, it failed to even address (much less confirm that any investigation actually took place) whether the Company's statements were false and misleading when made, which was the centerpiece of the Demand. This is particularly troublesome because, as discussed in detail below, the Board never even refused the Demand until nearly eight months after the Securities Class Action was sustained and Judge Cathy Bissoon affirmatively found that the Securities Plaintiff had adequately alleged that the Company (under the Individual Defendants' direction and on their watch) was engaged in an illicit scheme to defraud U.S. Steel shareholders through the issuance of false and misleading statements.

28. In addition to the Board's belated refusal of the Demand, which failed to address the crux of the Demand, and which inexplicably concluded that the Demand was "without factual or legal merit" (notwithstanding the sustained Securities Class Action), the Board's purported investigation of the Demand was flawed for numerous other reasons. For instance, it is clear that the Board never conducted any interviews of individuals who could or would corroborate the allegations contained in the Demand.

29. In light of the Board's unreasonable and wrongful refusals of Plaintiff's demand to investigate and remediate harms caused to the Company, Plaintiff filed this shareholder derivative action alleging breach of fiduciary duties and unjust enrichment.

30. Here, the Board has failed in its duty concerning Plaintiff's pre-suit demand. Whether the Board failed to meet its own self-imposed deadlines, failed to investigate or even address the accuracy of the Company's public disclosures, failed to engage in a meaningful and transparent process, reached inexplicable conclusions, or failed to undertake any investigation whatsoever of the actual demands made, it is clear that its response to the Demand was improper and directly at odds with the Board's fiduciary duties. Accordingly, this derivative action should proceed.

## II. JURISDICTION AND VENUE

31. This Court has subject matter jurisdiction over this action since Defendants conduct business and maintain offices in this Judicial District, and U.S. Steel is incorporated in this Judicial District.

32. This Court has jurisdiction over U.S. Steel pursuant to 10 Del. C. § 3111.

33. Venue is proper in this forum because this action involves significant issues of Delaware corporate law and is therefore suitable for adjudication before the Delaware Court of Chancery.

## III. THE PARTIES

34. Plaintiff is, and at all relevant times has been, a holder of U.S. Steel common stock.

35. U.S. Steel is a corporation organized and existing under the laws of the State of Delaware with its principal place of business located in Pittsburgh, Pennsylvania. The Company's common stock trades on the NYSE under the symbol "X." U.S. Steel, an integrated steel producer of flat-rolled and tubular products with major production operations in North America and Europe, supplies customers throughout the world primarily in the automotive, consumer, industrial, and oil country tubular goods markets. In 2014, U.S. Steel was the world's 15th largest steel producer by volume of steel production, producing 19.7 million tons

of steel. This figure dropped dramatically by 2016 to 14.2 million tons of steel, making U.S. Steel the 24th largest steel producer in the world.

36. Defendant Mario Longhi ("Longhi") was U.S. Steel's CEO from June 2013 to May 8, 2017, and was a member of the Board of Directors (the "Board") from September 2013 to June 30, 2017. Longhi was also the Company's President and performed the role of Chief Operating Officer from June 2013 to February 2017. U.S. Steel emphasized the critical role of Longhi as the Company's President and CEO in Company SEC filings and press releases filed or issued throughout the Relevant Period. For example, the Company's Schedule 14A Proxy Statement, filed with the SEC on March 14, 2017 ("2017 Proxy Statement") stated:

> As the Chief Executive Officer, ***Mr. Longhi is responsible for all of the business and corporate affairs of U. S. Steel. His diverse experience and deep knowledge of the steel industry is crucial to the Corporation's strategic planning and operational success.*** As the only employee-director on the Board, Mr. Longhi is able to provide the Board with an "insider's view" of what is happening in all facets of the Corporation. He shares not only his vision for the Corporation, but ***also his hands-on experience as a result of his daily management of the Corporation and constant communication with employees at all levels***. His insider's perspective provides the Board with invaluable information necessary to direct the business and affairs of the Corporation.

37. Defendant Longhi, therefore, admittedly participated in the management and day to-day operations of the Company and had actual knowledge of confidential proprietary information concerning U.S. Steel and its business, operations, growth, financial statements, and financial condition. Moreover, it is

reasonable to believe that Defendant Longhi on numerous occasions shared with the Board "his hands-on experience as a result of his daily management of the Corporation and constant communication with employees at all levels."

38. On February 28, 2017, U.S. Steel announced that Individual Defendant David Burritt ("Burritt") had been elected President and Chief Operating Officer and would assume Defendant Longhi's responsibilities for all aspects of the Company's day-to-day business in the United States and Central Europe, effective immediately. On May 10, 2017, U.S. Steel announced Defendant Longhi was retiring as CEO, effective immediately, and would be succeeded by Defendant Burritt.

39. Defendant Longhi's "retirement" came only two weeks after the Company's April 25, 2017 announcement revealing dismal first quarter 2017 financial results, despite improved market conditions. Despite these weak financial figures, just prior to his retirement, Longhi received a $4.53 million bonus for the 2016 fiscal year – his largest bonus ever – while the Company reported net loss for the 2016 fiscal year of $440 million.

40. Defendant Burritt has been U.S. Steel's President and CEO and a member of the Board since May 2017. From February 2017 to May 2017, Burritt was the Company's President and Chief Operating Officer, with executive responsibility for all aspects of the Company's day to-day operations. From

September 2013 to February 2017, Burritt was the Company's Executive Vice President and Chief Financial Officer ("CFO"). U.S. Steel emphasized the important role of Burritt as the Company's CFO, and later COO and CEO, in SEC filings and press releases filed or issued throughout the Relevant Period. For example, the Company's 2017 Proxy Statement acknowledged that, among other purported achievements: "Burritt set rigorous processes and protocols to not only support high integrity financial reporting, but also to drive Carnegie Way benefits and make timely and effective decisions around cost, revenue and staffing to achieve timeless improvements on structural and operating costs."

41. Defendant Burritt, therefore, directly participated in the management and day-today operations of the Company and had actual knowledge of confidential proprietary information concerning U.S. Steel and its business, operations, growth, financial statements, and financial condition. .

42. Defendant Burritt has, since 2017, been U.S. Steel's President and Chief Executive Officer ("CEO") for which employment Defendant Burritt was paid $11,590,073 in total compensation from U.S. Steel in 2018 and $4,694,200 in total compensation from U.S. Steel in 2017. Defendant Burritt is and has been a director of the company since 2017. Defendant Burritt is a named defendant in the Securities Class Action.

43. Defendant Dan Lesnak ("Lesnak") has been U.S. Steel's General

Manager of Investor Relations at all times relevant to this lawsuit, with management responsibility over securities law compliance and communication with the market. Lesnak has hosted and been an active participant in the Company's earnings calls and has spoken at length regarding various aspects of U.S. Steel's business, including matters relevant to the allegations contained herein.

44. Defendants Longhi, Burritt, and Lesnak are collectively referred to herein as the "Officer Defendants."

45. Defendant David S. Sutherland ("Sutherland") has been Chairman of the Board since 2008. During the Relevant Period, Defendant Sutherland was a member of the Board's Corporate Governance & Public Policy Committee.

46. Defendant Patricia Diaz Dennis ("Dennis") is and has been a director of the Company since 2015. During the Relevant Period, Defendant Dennis was a member of the board's Corporate Governance & Public Policy and Compensation & Organization Committees.

47. Defendant Dan O. Dinges ("Dinges") is and has been a director of the Company since 2010. During the Relevant Period, Defendant Dinges was a member of the Compensation & Organization Committee.

48. Defendant John J. Engel ("Engel") is and has been a director of the Company since 2011. During the Relevant Period, Defendant Engel was a member

of the board's Audit and Corporate Governance & Public Policy Committees.

49. Defendant Murray S. Geber ("Gerber") is and has been a director of the Company since 2012. During the Relevant Period, Defendant Gerber was a member of the board's Audit Committee.

50. Defendant Stephen J. Girsky ("Girsky") is and has been a director of the Company since 2016. During the Relevant Period, Defendant Girsky was a member of the Board's Audit, Compensation & Organization, and Corporate Governance & Public Policy Committees.

51. Defendant Paul A. Mascarenas ("Mascarenas") is and has been a director of the Company since 2016. During the Relevant Period, Defendant Mascarenas was a member of the board's Audit and Compensation & Organization Committees.

52. Defendant Eugene B. Sperling ("Sperling") is and has been a director of the Company since 2017. During the Relevant Period, Defendant Sperling was a member of the Board's Audit and Corporate Governance & Public Policy Committees.

53. Defendant Patricia A. Tracey ("Tracey") is and has been a director of the Company since 2007. During the Relevant Period, Defendant Tracey was a member of the Board's Corporate Governance & Public Policy and Compensation & Organization Committees.

54. Defendant John V. Faraci ("Faraci") is and has been a director of the Company since 2019.

55. Defendants Burritt, Sutherland, Dennis, Dinges, Engel, Geber, Girsky, Mascarenas, Sperling, Tracey, and Faraci are collectively referred to herein as the "Director Defendants."

56. The Director Defendants, along with Defendants Longhi and Lesnak, are collectively referred to herein as the "Individual Defendants."

## IV. STATEMENT OF FACTS

### A. Background of the Company

57. U.S. Steel was founded in 1901 by J.P. Morgan and Elbert H. Gary, who combined Andrew Carnegie's Carnegie Steel Company with the Federal Steel Company and the National Steel Company. At one point, the Company was the largest corporation in the world, and the largest steel producer. Today, U.S. Steel is an integrated steel producer of flat-rolled and tubular products with major production operations in North America and Europe. U.S. Steel supplies customers throughout the world, primarily in the automotive, consumer, industrial, and oil country tubular goods markets. The Company boasts an annual raw steel production capability of approximately 22 million net tons (17 million tons in the United States and 5 million tons in Europe).

58. U.S. Steel divides its operations into three primary segments: (i) Flat-Rolled; (ii) U.S. Steel European ("USSE"); and (iii) Tubular. The Flat-Rolled segment includes U.S. Steel's integrated steel plants in the United States involved in the production of slabs, rounds, strip mill plates, sheets and tin mill products, as well as all iron ore and coke production facilities. The USSE segment includes U.S. Steel Kosice (USSK), an integrated steel plant and coke production facility in Slovakia. The Tubular segment includes the Company's tubular production facilities, primarily in the United States, which produce metal products with a hollow tubular cross section in many different forms, including pipe, rectangular shaped, and D-shaped.

**1. The Flat-Rolled Segment**

59. Flat-rolled steel is a type of steel sheet that is manufactured by rolling, with the starting and ending material having a rectangular cross-section. The material is fed between two rollers, called working rolls, which rotate in opposite directions. The final product is either a sheet or plate, with the former being less than 6 mm (0.24 in) thick and the latter being greater than that.

60. U.S. Steel's Flat-Rolled segment accounts for 67-70% of the Company's total steel shipments in tons and 67-74% of the Company's net sales.

61. Within its Flat-Rolled segment, U.S. Steel produces three primary products: (i) hot rolled steel; (ii) cold rolled steel; and (iii) coated sheets. Hot

rolling is a mill process which consists of rolling the steel at a high temperature above steel's recrystallization temperature, allowing the steel to be shaped and formed easily. When the steel cools it will shrink slightly, allowing less control over the size and shape of the finished product when compared to cold rolled. Hot rolled products are used in the welding and construction trades to make railroad tracks and I-beams, and other situations where precise shapes and tolerances are not required. Hot rolled steel is typically cheaper than cold rolled steel partly because reheating of the steel is not required (as it is with cold rolled).

62. Cold rolled steel, in turn, is essentially hot rolled steel that has had further processing in cold reduction mills where the material is cooled followed by annealing and/or tempers rolling. This process will produce steel with a superior surface finish, and superior tolerance, concentricity, and straightness when compared to hot rolled steel. Cold rolled products are used in all areas of manufacturing of durable goods, such as appliances or automobiles, or any other project where tolerances, surface condition, concentricity, and straightness are the major factors. Coated sheets are hot or cold rolled steel products coated with differing types of metallic to create improvements in corrosion.

63. As set forth in the chart below, the U.S. Flat-Rolled Segment accounted for 17 million of the Company's 22 million tons, or 77%, of its net ton

production capability (excluding the Fairfield Works facility, which was permanently shut down in 2015):

| FLAT-ROLLED FACILITIES | | | |
|---|---|---|---|
| **Facility** | **Location** | **Raw Steel Production Capacity** ***in millions of tons** | **Status During Class Period** |
| Gary Works | Indiana | 7.5 | • Producing hot-rolled, cold-rolled and coated sheets.<br>• In May 2015, U.S. steel permanently shut down its last remaining coke making facility. |
| Great Lakes Works | Michigan | 3.8 | • Producing hot-rolled, cold-rolled, and coated sheets |
| Mon Valley Works | Pennsylvania | 2.9 | • Producing hot-rolled, cold-rolled, and coated sheets, as well as coke and coke by-products |
| Granite City Works | Illinois | 2.8 | • Producing hot-rolled and coated sheets.<br>• During December 2015, the Granite |

| FLAT-ROLLED FACILITIES | | | |
|---|---|---|---|
| **Facility** | **Location** | **Raw Steel Production Capacity** ***in millions of tons*** | **Status During Class Period** |
| Gary Works | Indiana | 7.5 | • Producing hot-rolled, cold-rolled and coated sheets.<br>• In May 2015, U.S. steel permanently shut down its last remaining coke making facility. |
| Great Lakes Works | Michigan | 3.8 | • Producing hot-rolled, cold-rolled, and coated sheets |
| Mon Valley Works | Pennsylvania | 2.9 | • Producing hot-rolled, cold-rolled, and coated sheets, as well as coke and coke by-products |
| Granite City Works | Illinois | 2.8 | • Producing hot-rolled and coated sheets.<br>• During December 2015, the Granite City Works steelmaking operations and hot strip mill were temporarily idled. U.S. Steel partially restarted operations in February 2017. |
| Fairfield Works | Alabama | 2.4 | • During 2015, the steelmaking operations at the Fairfield Works facility were shut down permanently. |

64. Thus, U.S. Steel's Flat-Rolled segment and facilities was a highly material feature of the Company's business operations and its "core" business.

65. Before and during the Relevant Period, Defendants consistently emphasized the importance of continued innovation and investment in U.S. Steel's steel technology, and in particular, the Company's Flat-Rolled facilities stating, for example, that the Company is "committed to investing in technologies," "have investigated, created and implemented innovative, best practice solutions throughout U.S. Steel," is "position[ed] to be best-in-class in innovation," and is "focused on the investments that we need."

**2. The Tubular Segment**

66. Tubular is a type of metal profile with a hollow tubular cross section. U.S. Steel's Tubular segment consists of the operating results of U.S. Steel's tubular production facilities, primarily in the United States, and equity investees in the United States and Brazil. These operations produce and sell seamless and electric resistance welded (ERW) steel casing and tubing, standard and line pipe and mechanical tubing and primarily serve customers in the oil, gas and petrochemical markets.

67. The Tubular segment's annual production capability is 2.8 million tons. During 2014 to 2016, U.S. Steel's Tubular segment accounted for 2.7-8.8%

of the Company's total steel shipments in tons and 4.4-15.8% of the Company's net sales.

### 3. The European Segment

68. U.S. Steel's USSE segment includes U.S. Steel Kosice (USSK), an integrated steel plant and coke production facility in Slovakia. USSE primarily serves customers in the European construction, service center, conversion, container, transportation (including automotive), appliance and electrical, and oil, gas and petrochemical markets. Between 2014 and 2016, U.S. Steel's USSE segment accounted for 21-30% of the Company's total steel shipments in tons and 16.5-22% of the Company's net sales.

69. According to Defendants, USSK has an annual raw steel production capability of 5.0 million tons, and mainly produces hot-rolled steel, cold-rolled steel and coated sheets, tin mill products and spiral welded pipe. USSK also has facilities for producing heating radiators and refractory ceramic materials. This facility has two coke batteries, four sintering strands, three blast furnaces, four steelmaking vessels, a vacuum degassing unit, two dual strand casters, a hot strip mill, two pickling lines, two cold reduction mills, three annealing facilities, a temper mill, a temper/double cold reduction mill, three hot dip galvanizing lines, two tin coating lines, three dynamo lines, a color coating line and two spiral welded pipe mills.

### B. After Years of Consecutive Losses, U.S. Steel Implements the "Carnegie Way" Initiative

70. By 2014, U.S. Steel had experienced years of consecutive losses leading to a 90 percent drop in the Company's stock price and the bankruptcy of its Canadian subsidiary. Defendant Longhi then hired McKinsey, with which he had a long-standing past relationship through his previous employment at Alcoa, to launch a purported "transformational process" called the "Carnegie Way." The Carnegie Way, named after U.S. Steel co-founder and famous industrialist Andrew Carnegie, was purportedly intended to drive and sustain profitable growth. U.S. Steel repeatedly told the market that the Carnegie Way initiative was "much more than a cost cutting initiative, improving all our core business processes, including commercial, manufacturing, supply chain, procurement, innovation, and functional support."

71. U.S. Steel characterized the Carnegie Way as a purported "strategic, disciplined approach to transforming the Company to address the new realities of the marketplace." The Carnegie Way consisted of three elements: (1) Employee Engagement, which was intended to get personnel interested in and engaged with the Carnegie Way program; (2) RCM, which was purportedly focused on making proactive improvements to U.S. Steel's manufacturing operations and facilities; and (3) Operational Excellence, which was related to process improvements that could save the Company money.

72. According to confidential witnesses in the Securities Class Action, Carnegie Way projects were required to follow a six sigma methodology. Six Sigma methodology, which was first introduced by engineers of Motorola back in 1986, is a set of techniques and tools for process enhancement to improve the quality of the output of a process. The Six Sigma methodology at U.S. Steel was known as "DMAIC," which stood for Define, Measure, Analyze, Implement, and Control. Each element was assigned a "D-Gate" level, 1-5, depending on the progress of a project.

73. According to one confidential witness in the Securities Class Action, the first stage is the Define stage, which included creating a charter and identifying a leader or sponsor for the project. The second stage, Measure, involved measuring the "current state" of something at the Company, which became the "baseline." The Analyze stage involved determining far the Company was from the benchmark (i.e. where it wanted to be) and demonstrating that it had an "idea" of what was "missing." Next, the Implement stage involved implementing the project. Lastly, the Control stage involved instituting a new "benchmark" and keeping the Company from "slipping back." The value, or cost savings, was recognized only when the project reached D-5 Control, meaning the project had been fully implemented.

74. All five stages were tracked in the Company's "Wave" system. Savings were measured as the "shift" from the "baseline," or the "gap" between the baseline and the "new performance" (e.g., the difference between what was being spent after the project was completed and what had previously been spent).

75. As discussed below, while the Carnegie Way was initially created to address three elements – Employee Engagement, RCM and Operational Excellence – in 2015, after market conditions became drastically worse, U.S. Steel abandoned Employee Engagement and RCM and focused solely on "Operational Excellence," which meant ruthlessly cutting costs in order to enhance the Company's bottom line.

### C. The U.S. Steel Market Drastically Deteriorates During 2015

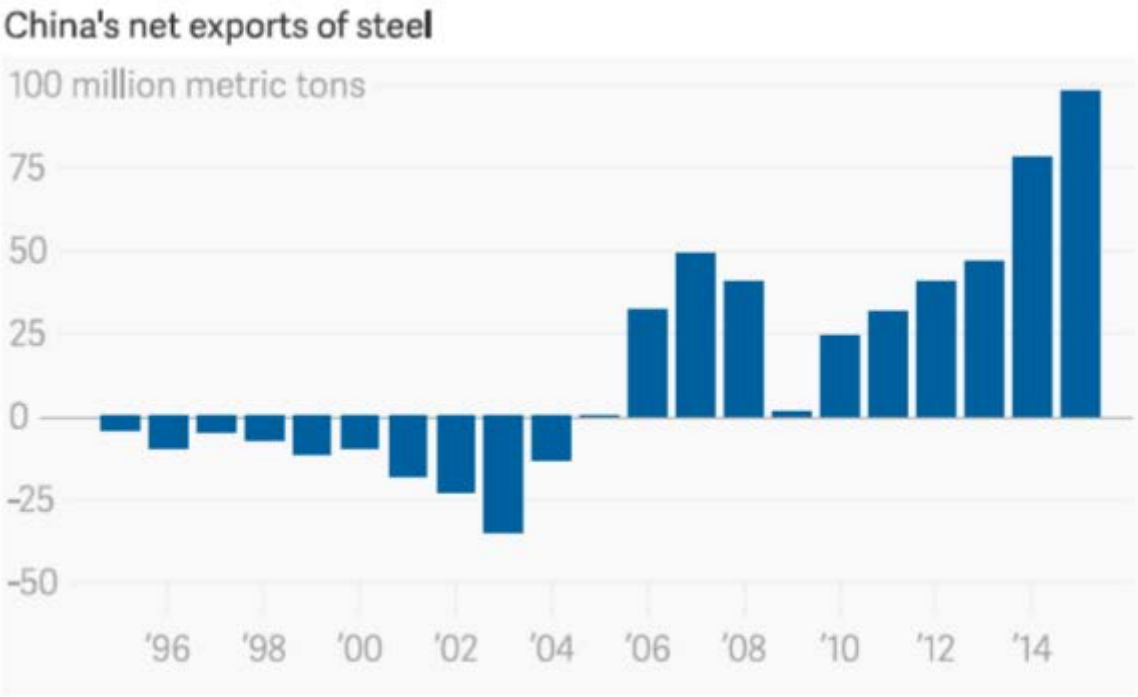
#### 1. Market Factors Resulting in the Deterioration of the Steel Market in 2015

76. In 2015, the global demand for steel dropped. The Organization for Economic Co-Operation and Development ("OECD") in its Q4 2015 document, *Steel Market Developments*, attributed this weakness to slowing world economic growth reflecting slowdowns and recessions in some major emerging market economies. China's economic growth was among those countries observed as its Gross Domestic Product growth slowed due to a reduction in its demand for buildings and equipment.

77. The impact of this decrease in demand on the health of the global steel industry was worsened by a sharp increase in Chinese steel production capacity that had been taking place over the past decade. Based on OECD data, between 2000 and 2016, Chinese steel capacity increased 678%. China went from having 149.6 million metric tons of steel capacity, slightly above the 116 million metric ton annual steelmaking capacity in the United States in 2000, to 1.16 billion tons of capacity in 2016, or ten times that of the U.S. in 2016.

78. Although some of this increased steel production could be used in China's own expanding economy, it became a net exporter of steel to other countries in 2006. As global demand dropped in 2015, Chinese production and exports put downward pressure on global steel prices, adversely impacting steel companies around the world.[3]

[3] As the anti-dumping and countervailing duty trade actions in the U.S. went into effect against certain flat-rolled steel products from China in 2016, U.S. imports of those products from China drastically declined.




79. Throughout 2015, prices of some steel making raw materials also declined. As of November 2015, the spot price of iron ore was $48 per ton (cost and freight to China), equaling a 29% decline from January 2015, and a 63% fall from January 2014. This sharp decrease in price was the result of oversupply of iron ore, as steel demand weakened and supply increased, particularly from Australia. The coking coal and scrap metal markets also fell sharply throughout 2015. In November 2015, the coking coal and scrap prices (spot) were down by 30% and 43%, respectively, relative to their January 2015 levels. Although this helped reduce some of the input costs to steelmaking production, it also contributed to the downward pressure on finished steel prices.

80. The combined impact of dwindling global steel demand, growing Chinese production, and decreases in steelmaking costs led to a very steep decline in world steel prices, as well as U.S. prices. For example, according to American Metal Market, the quarterly average price of U.S. cold-rolled coil dropped from $32.90 per hundredweight in Q1 2015 to $25.54 per hundredweight in Q4 2015 (a decline of 22%). These price declines worsened the already small operating margins that steel companies command and the reduction in raw materials prices was not enough to overcome that impact. Integrated steel manufacturers, such as U.S. Steel, were particularly vulnerable, because blast furnace operators are subject to significantly higher operating leverage than electric arc furnace operators and once a blast furnace is started it will typically run for years at a time. The average pre-tax operating margin of 757 publically traded steel companies from October 2013 to September 2014 was 5.99%, well below the 9.3% average operating margin for the world's 42,410 publicly traded firms. Globally, steel's average operating margin was ranked 79th out of 96 listed industries, and in the United States it was 84th. If only manufacturing firms are included, steel is ranked amongst the very least profitable industries.

### D. The Deterioration of the Steel Market Forces U.S. Steel to the Brink of Bankruptcy

81. The deterioration of the steel industry during 2015 had a nearly catastrophic effect on U.S. Steel's financial performance, causing record year-over-year losses and a stunning year-end 2015 loss of $1.5 billion, marking the Company's failure to turn a profit in ***six of the last seven years***.

82. As detailed further below, these financial losses forced U.S. Steel management to shut down various facilities in 2015, leading industry analysts to speculate as to whether the Company was headed for bankruptcy. For example, during a conference call discussing the Company's Q4 results for 2015 held on January 27, 2016, David Gagliano, an analyst with BMO Capital Markets, questioned whether temporary facility shutdowns would be enough to save the Company in the long term, stating:

> But really what I am getting at is contingency planning beyond that [asset closures]. In case this environment somehow magically stays in place beyond the next 12 months, I think the working capital improvements may potentially fade. There is risk if that cash burn potentially increases significantly and then there is concern about liquidity, in my opinion. And so I am just wondering what the timing is when those contingency plans start to take effect.

83. In response, Defendant Burritt reassured analysts and investors that, while "everything is on the table:"

> ***We are managing cash extraordinarily closely***. We look at it daily. We have rolling forecasts. We are on it, we got this. We are going to adapt to whatever the economic circumstances are and we will have the trigger points that will tell us what we need to do. ***We are still in great cash position…[s]o we feel extraordinary comfortable where***

> ***we are today***…[w]e are not going to tell you what the next steps are but you can understand that we are on it and we got it.

(Emphasis added).

84. In the same January 27 conference call, Matt Vittorioso, an analyst with Barclays, questioned what would occur when the Company reduced its working capital and inventory. In November 2015, Vittorioso had stated to Bloomberg that, "[f]olks are beginning to question the viability of the business, just given how weak steel fundamentals are."

85. This industry sentiment persisted into 2016. For instance, by year-end 2016, U.S. Steel was projecting full-year 2016 Adjusted EBITDA that would be "near breakeven," and $500 million cash benefits from working capital improvements. Gordon Johnson of Axiom Capital was skeptical of these metrics, noting several reasons in an interview with *Benzinga*.[4] Of specific note, Johnson was skeptical of the fact that the Company had suddenly changed from providing quarterly guidance to yearly guidance. This deviated from U.S. Steel's long-standing policy and, according to Johnson, could have been done to conceal weakness in the second half of the year.

---

[4] Joel Elonin, *Gordon Johnson of Axiom Capital Not a Believer in U.S. Steel Rally*, BEZINGA (Jan. 28, 2015), https://www.benzinga.com/general/movers-shakers/15/01/5187737/gordon-johnson-of-axiom-capital-not-a-believer-in-u-s-steel-ral.

### E. U.S. Steel Abandons the Employee Engagement and Reliability Centered Maintenance Carnegie Way Initiatives and Focuses Solely on Ruthless Cost-Cutting to Salvage the Bottom Line

86. In 2015, as market conditions severely diminished and U.S. Steel struggled to stay afloat, the Individual Defendants embraced a "tone at the top," which required U.S. Steel employees to abandon the Employee Engagement and RCM aspects of Carnegie Way and engage in harsh cost-cutting measures to enhance the bottom line. The Individual Defendants also slashed capital spending for the same reason.

#### 1. Defendants Abandoned Employee Engagement

87. According to a confidential witness in the Securities Class Action, it was generally recognized throughout the Company that the main focus of Carnegie Way was on the Operational Excellence cost savings element. As a member of the Carnegie Way initiative, this confidential witness was aware of the projects occurring at different facilities despite not being directly involved with them.

88. The confidential witness explained that, unlike Operational Excellence, the RCM and Employee Engagement elements were recognized by U.S. Steel personnel as "a joke" and "a load of crap" because the Company was not committed to them and "no one was doing anything" related to them. This account was corroborated by another confidential witness in the Securities Class Action.

### 2. Defendants Abandoned Reliability Centered Maintenance

89. According to another confidential witness in the Securities Class Action, RCM was a corporate-wide program purportedly designed to enhance overall maintenance planning and scheduling throughout the Company. This confidential witness stated that RCM was designed to improve overall maintenance planning and scheduling throughout U.S. Steel through "predictive maintenance" in which the Company took a "proactive," rather than a "reactive" approach and ordered parts to be replaced before they wore out. This included efforts to implement and follow-up on preventative maintenance in order to stop the Company's equipment and infrastructure from breaking. By replacing parts before they wore out, downtime would be decreased and, thus, production delays would be reduced. According to the confidential witness, U.S. Steel used a program called Oracle during the Relevant Period as its Computerized Maintenance Management Software ("CMMS"). Oracle CMMS tracked parts and maintenance requirements. This information was available on the Company's network so that personnel in Pittsburgh, including the Individual Defendants, could access it. As already stated above, throughout the Relevant Period, Defendant Longhi in his role as CEO shared with the Board "what is happening in all facets of the Corporation."

Accordingly, it is reasonable to believe that Defendant Longhi shared information regarding the CMMS system with the Board.

90. As part of the RCM initiative, previous existing maintenance groups within U.S. Steel, including the Reliability Assurance group and Risk Assessment group, became rolled up under the Carnegie Way and, in some instances, were removed altogether. In particular, according to a confidential witness in the Securities Class Action, U.S. Steel had created a Reliability Assurance team in 2012 to enhance U.S. Steel's product delivery times, product quality, and safety. This confidential witness stated the group was primarily created because most of the Company's facilities had been built prior to 1970 so they had old equipment without much automation. The confidential witness further explained that U.S. Steel hoped to become a more global company, but had recognized that it was "behind the game" in terms of up-to-date controls and equipment, which was impacting the Company's ability to deliver quality products to its customers on time and in a safe manner. Indeed, some employees tried to convince the executives to create a team to address these issues and eventually the executives "halfheartedly" permitted the creation of the Reliability Assurance team.

91. According to the confidential witness, at the time the Reliability Assurance team was created, U.S. Steel employees knew that something needed to be done about the Company's facilities, but Reliability Assurance was just a "buzz

word" that no one knew much about. One confidential witness in the Securities Class Action explained that the team, eventually consisting of five employees and a secretary, was tasked with the responsibility of looking at the equipment at U.S. Steel's facilities and determining what was affecting the Company's ability to service their customers. The team would also make presentations to various plants, such as Gary Works and Great Lakes, to teach employees about reliability assurance and maintenance. The confidential witness said the team had trouble "gaining traction," but eventually made some progress. Once the Carnegie Way was implemented, however, the Reliability Assurance team was "indirect[ly] control[ed]" under the RCM element of the Carnegie Way. As explained below, this meant nothing was done to improve or maintain U.S. Steel's facilities.

92. The second group to be taken over by the Carnegie Way philosophy was the Risk Assessment group. According to a confidential witness in the Securities Class Action, the Risk Assessment Group, which was at U.S. Steel since this witness started employment, traveled to the Company's various facilities to create a "critical spare list." The confidential witness stated that the group would analyze what parts were available at each facility and what the impact would be if any parts broke. For example, according to the confidential witness, the Risk Assessment group would analyze things such as: If a motor went out on the cold

mill, did the plant have a spare motor? If not, were there spare motors available? What would be the impact if the motor went out?

93. However, once the Carnegie Way was enacted in 2014, the Risk Assessment group essentially became "wiped out." The confidential witness explained that this was because money was not permitted to be spent on necessary spare parts.

94. Another confidential witness in the Securities Class Action recounted similar details about how the RCM program was ignored. In particular, according to the confidential witness, the general consensus of U.S. Steel employees was that the RCM was a "waste of time" since management was not committed to it. In fact, the confidential witness explained that the training the confidential witness received regarding RCM did not even make it clear what RCM meant. According to the confidential witness, RCM initiatives were never implemented at the Gary Works facility because there was no dollar value to be achieved by implementing them. Thus, managers would not spend money on tools because doing so would not "make money" as the Operational Excellence projects would. The confidential witness commented that if the RCM element was meant to engage preventative maintenance to avoid equipment and infrastructure from breaking, "nothing was really done" at Gary Works because the equipment and infrastructure there kept breaking.

95. Thus, contrary to Defendants' public statements that U.S. Steel was "***continu[ing] to implement our reliability centered maintenance process across all of our facilities***" and, thus, was "starting to see the benefits as we have experienced ***fewer unplanned outages and lower maintenance costs***," in reality, U.S. Steel was performing little maintenance, resulting in costly repairs and outages.

### 3. Defendants Implement Extreme Cost-Cutting Measures Under the Operational Excellence Carnegie Way Initiative to Save the Bottom Line

96. To offset years of losses and avoid bankruptcy, the Company doubled down on the purported Carnegie Way "transformation" by enacting extreme cost-cutting measures in the form of: (1) massive layoffs; (2) deferring maintenance and repairs; and (3) drastic reductions in capital expenditures.

#### a. U.S. Steel's Massive Layoffs Result in Safety Violations

97. Throughout the Relevant Period, U.S. Steel laid off thousands of employees, leaving the Company with few individuals possessing the knowledge or experience to sufficiently maintain its facilities. As a result, machines were not maintained, became dangerously unsafe, and caused numerous injuries, even death.

98. Starting in 2015, U.S. Steel was forced to idle facilities due to decreased market demand, including Gary Works and Fairfield Works. For

example, on February 26, 2015, U.S. Steel closed down its Gary Works coke plant in Gary, Indiana, signaling the first in a long line of plant shutdowns and employee layoffs. On August 17, 2015, U.S. Steel announced that it was permanently closing its Fairfield Works blast furnace located in Birmingham, Alabama on November 17, 2015. The shutdown of Fairfield Works resulted in over 1,100 employees losing their jobs. Contemporaneously, on November 23, 2015, U.S. Steel closed its Granite Mill in Granite City, Illinois in order to save on operation costs, and laid off about 2,000 employees. Granite Mill remained closed until a small portion of the facility was reopened in February 2017.

99. Because of this, the Company laid off thousands of employees, exacerbating understaffing and maintenance issues already plaguing the Gary Works facility. Critically, according to the United Steelworkers Union and public reports, ***these layoffs centered on maintenance employees***.[5] Indeed, in April 2016, the Company announced it was laying off one quarter (25%) of its salaried workforce. Shortly after these April layoffs, in June 2016, a U.S. Steel employee, Charles Kremke, 67, was killed from accidental electrocution while working at the

[5] Joseph S. Pete, *U.S. Steel Lays Off More Workers at Gary Works*, NWI.COM (Aug. 12, 2016), http://www.nwitimes.com/business/steel/u-s-steel-lays-off-more-workers-at-garyworks/article_5b5725f5-25b2-5982-8c5a-88b4067e2a5d.html.

Company's Gary Works facilities.[6] The Indiana Occupational Safety and Health Administration found U.S. Steel committed four serious safety violations resulting in the death and fined the Company $28,000 for the lapses in safety that contributed to the death. U.S. Steel also exercised its right for an informal settlement meeting and IOSHA is in the process of working out a settlement agreement, an IOSHA spokeswoman reported.

100. By August 2016 – the same month as the Company's secondary public offering – the United Steelworkers Union had filed a grievance alleging U.S. Steel's layoff of about 75 employees at Gary Works and demotions of an additional 200 to work gangs raised serious safety concerns. According to Union District 7 Director Mike Millsap ("Millsap"), U.S. Steel had replaced full-time maintenance workers with independent contractors at Gary Works, causing "hundreds of work orders [] going unfilled, and ***no preventative maintenance [] getting done at the sprawling plant on Lake Michigan***."[7] Millsap elaborated:

> Every workplace has work hazards that the employers and employees must be aware of. At any given time a workplace accident can happen

---

[6] Joseph S. Pete, *U.S. Steel Fined $28,000 for Death at Gary Works*, NWI.COM (Dec. 20, 2016), http://www.nwitimes.com/business/steel/u-s-steel-fined-for-death-at-garyworks/article_a75223e1-d957-5580-8e1c-25f741bc48cc.html.

[7] Joseph S. Pete, *USW says U.S. Steel Layoffs Jeopardize Safety*, NWI.COM (Aug. 31, 2016), http://www.nwitimes.com/business/steel/usw-says-u-s-steel-layoffs-jeopardizesafety/article_2d1ce954-2716-56f6-b1d3-274042615903.html?utm_medium=social&utm_source=email&utm_campaign=user-share.

> that can result in very serious injuries and sometimes fatalities. It is the obligation and responsibility of the company to minimize these hazards a[s] much as possible to make the workplace safe. In this steel plant, those risks are much greater. The risk is greater for the employees.
>
> *  *  *
>
> This union is prepared to bargain over the layoffs McKinsey says need to happen. ***How will the maintenance work get done? That's our question.*** Specifically, the safety work.

(Emphasis added).

101. At the same time, state investigators blamed U.S. Steel for not de-energizing live parts before an employee worked on them, for not training an employee to be able to differentiate live parts from other electrical equipment, for not testing that circuit elements and electric equipment parts were de-energized before going in to do work, and for not providing a worker with protective shields or barriers to prevent inadvertent contact with an electrical current while working in a confined space. Union officials publicly announced that U.S. Steel had made the mill less safe by cutting maintenance workers and rushing roving labor gangs through a backlog of jobs. The Union had appealed the layoffs, filing a grievance with a third-party arbiter, and argued the layoffs threatened workplace safety by running understaffed, under-maintained facilities.

102. Around the time of these additional layoffs, the understaffing and reduced maintenance resulted in a second tragic death of a U.S. Steel employee on

September 29, 2016 at the Company's Gary Works facility. As reported, U.S. Steel electrician and maintenance worker Jonathan Arizzola, 30, was killed in the U.S. Steel Slab Storage Yard just weeks after Union employees had held demonstrations to protest that U.S. Steel was making the mill less safe by laying off and demoting maintenance workers.[8] The United Steelworkers Union had filed an appeal to arbitrate the mass layoffs, arguing ***the cuts were putting workers at risk by putting off preventative maintenance and causing work orders to pile up***.[9]

103. Arizzola had been employed at the mill for about four years, and was killed in an accident while working in a four-man crew assigned to troubleshoot a crane at the U.S. Steel slab storage yard in Gary. Following his death, his widow reported that Arizzola had often expressed concern regarding the deterioration of

---

[8] The Company's 2017 Proxy notes:

> [t]he Board, as a whole, also considers risk assessment and risk management. For example, the Board annually reviews the Corporation's strategic plan which includes a review of risks related to: safety, environmental, operating and competitive matters; political and regulatory issues; employee and labor issues; and financial results and projections. Management regularly provides updates to the Board related to legal and compliance risks and cyber-security matters.

Accordingly, it is reasonable to assume that the members of the Board of Directors were aware of, and received regular updates of, issues concerning the safety of the Company's mills and other facilities.

[9] Joseph S. Pete, *Steelworker Who Died Told Wife Mill Was Getting Less Safe*, NWI.COM (Oct. 3, 2016), http://www.nwitimes.com/business/steel/steelworker-who-died-told-wife-mill-was-getting-lesssafe/article_92ddbe7d-6133-5ee8-9002-42ec48aa5a37.html.

working conditions at the mill in Gary, and had even suffered an electric shock in a separate accident at Gary Works the week before his death, elaborating: "He was constantly complaining about McKinsey group cutting back workers. There was always some kind of close call with someone he worked with…[a]ll they care about is making money…They keep cutting when they should have a safer environment for people. It shouldn't be all about the money."

104. Also in response to his death, United Steelworkers Union Local 1014 President Rodney Lewis said in a Facebook post to steelworkers that bare-bones crews at Gary Works put steelworkers at risk for more accidents:

> Our company has decided that, to save a dollar, they'll farm people out all over this mill which only increases the chances for accidents like these happening. They should instead be asking themselves if it's high time they started listening to what we've been saying all along. Moving people all around a mill like chess pieces only promises to result in something tragic. Shutting down training when you need it the most is just bad business when you consider that we are 'the company's most important asset.'

105. In May 2017, the Indiana Department of Labor found U.S. Steel committed two serious safety violations at Gary Works after investigating Arizzola's death and fined U.S. Steel $14,000 total, or $7,000 for each violation, the amount is prescribed by statute. The Indiana Department of Labor found U.S. Steel failed to provide safety training and protections against live electrical equipment. United Steelworker Union officials tied his death and the June 2016 electrocution death of 67-year-old Charles Kremke at Gary Works ***to cutbacks in***

***maintenance staffing*** that they said posed safety hazards and that have since been reversed. In addition, an Occupational Safety and Health Administration investigation found that maintenance employees were performing repairs to the 501 crane in the slab yard while three collector rails were live, exposing the workers to electrical hazards.

**b. U.S. Steel Instructs Plant Managers "Don't Buy, Get By" and Forces them to "Jury Rig" Broken Machinery**

106. According to confidential witnesses in the Securities Class Action, U.S. Steel repeatedly canceled purchase orders for parts necessary to keep facilities running and used cheaper, less durable materials to operate machinery. Rather than invest in its equipment, U.S. Steel plant managers would deny maintenance requests and tell employees to "jury rig" the machines and operate by the motto, "Don't Buy, Get By." U.S. Steel also repeatedly deferred maintenance projects and once the Company's machines inevitably broke, the Company suffered millions in losses as a result.

107. In particular, a confidential witness in the Securities Class Action alleges that U.S. Steel began cancelling purchase orders for parts that were necessary to keep its facilities running. This confidential witness' primary job responsibility was to order machinery parts for all of U.S. Steel's plants in the United States. The confidential witness stated that the Company's cost cutting

measures were so extreme that it began cancelling hundreds of orders. The confidential witness recalled that in one day, alone, this witness worked on 30 to 40 cancellations. According to the confidential witness, this cost saving technique was a directive from the Vice President of Purchasing in the Pittsburgh corporate office and started occurring during the last several months leading up to the confidential witness' departure in April 2016.

108. U.S. Steel also deferred maintenance and repairs spending at all costs. According to the same confidential witness, the process for ordering machinery parts was as follows: (1) planners at U.S. Steel plants determine what needs to be ordered; (2) a "Min-Max report" is run to determine the maximum number of units the planners can buy; (3) a "requisition" was submitted through the Company's Oracle program; and (4) depending on the cost of the item, multiple layers of approval may be needed. Starting in September or November of 2015, this process was changed so that some requisitions required approval of a "control tower," which consisted of McKinsey and the Plant Manager. The control tower was part of the Company's Carnegie Way cost cutting efforts and would determine whether the plants could "get by" without the requested parts. The implementation of the control tower resulted in a significant reduction of requisition approvals.

109. The confidential witness recalled that when first working at U.S. Steel, this witness worked on 60-70 requisitions per day. By the time the

confidential witness left the Company in 2016, this number fell 95% to about two or three per day. The confidential witness explained that the requisition denials led to a decrease in submissions as the Company had a ***philosophy of "don't buy, get by"*** and placed a lot of "pressure" on plant employees to not buy anything if the machines were running. Unless a machine was not working, workers were expected to "***jury rig***" the machines to keep them running rather than order new parts. By way of example, the confidential witness explained that while some parts are supposed to be replaced every six months to one year and receive regular maintenance, workers would jury rig the machine when it broke until it got to the point where the machine kept breaking and could no longer be fixed without a new part.

110. Additionally, the confidential witness explained that spare parts were not kept at U.S. Steel's facilities and if a machine was down, the workers would "clear out" that section of the plant and "work around" the broken part if they could by using another section of the plant. According to one employee, workers were also being ordered to use cheaper materials which inevitably led to machines breaking down sooner.[10] For instance, one former operations and maintenance

[10] Len Boselovic, *Analysts Say U.S. Steel Cost-Cutting Hurting Operations, Safety*, PITTSBURGH POST-GAZETTE (Nov. 3, 2016), http://www.postgazette.com/business/pittsburgh-company-news/2016/11/02/U-S-Steel-shares-dip-in-earlytrading-Pittsburgh-steelmaker/stories/201611020168.

employee said "purchasing managers in Pittsburgh had ordered his mill to use cheaper oils to lubricate bearings. That caused the bearings to wear out more quickly, resulting in extra costs and longer down time."[11]

111. Another confidential witness in the Securities Class Action supported U.S. Steel's refusal to implement necessary maintenance. According to this confidential witness, U.S. Steel began deferring numerous projects, some of which included structural integrity issues that absolutely needed to be done or it would cost a lot of money. As the confidential witness explained, spending on plant structural maintenance drastically decreased since 2010 at Great Lakes Works. In particular, in 2010, U.S. Steel spent approximately $29 million on structural maintenance. This amount decreased every year with U.S. Steel spending the following: 2011 - $14 million; 2012 - $9 million; 2013 - $7 million; 2014 - $6 million and 2015 - $3 million.

112. According to the confidential witness, maintenance spending was determined based upon a Business Plan, which included the budget for repair and maintenance costs, capital spending, production costs and other items. The Business Plan for a given year was created in the fall before. The confidential witness recalled meeting with McKinsey and the Great Lakes Plant Manager, among others, in the fall of 2015 to discuss the proposed 2016 Business Plan.

---

[11] *Id.*

According to the confidential witness, after he met with McKinsey, McKinsey then took the Business Plan to Longhi, Burritt and other executives in Pittsburgh for approval. The confidential witness recalled that the 2016 Business Plan went through numerous iterations because McKinsey and Defendants kept cutting the repair and maintenance budget.

113. The confidential witness explained that maintenance projects at U.S. Steel were coded according to priority. Projects coded as "S-1," meant those projects needed repair immediately or the Company would risk disruption in operations and/or employee injury. The confidential witness stated that as of July 25, 2016, at Great Lakes there was a "significant amount of work to be done" with a backlog of 253 projects categorized as "S-1" projects that should have been completed years ago. The confidential witness stated the cost to complete all 253 projects would have be "astronomical" and estimated it in the tens of millions of dollars, "if not more." According to the confidential witness, the Officer Defendants and McKinsey did not "want to hear" about the critical structural maintenance and repairs that needed to be done because it cost money. This caused the Company to get even further behind on maintenance.

114. Thus, while the Carnegie Way measures were billed to investors as "not just a cost cutting initiative," in reality, the Carnegie Way had become an extreme cost cutting measure intended to salvage the Company's short-term

bottom-line at any means necessary, including through U.S. Steel's top-down consistent refusal and failure to invest in critically necessary new technology or maintain U.S. Steel's Flat-Rolled facilities.

### 4. U.S. Steel Slashes Capital Spending

115. According to Goodish, U.S. Steel's former COO from June 2005 to December 2010, during his employment at U.S. Steel, the Company created its capital expenditure forecasts on a five-year, plant by plant basis. Goodish explained that the capital expenditures were determined based on revenue projects and plant managers' requests for repairs and upgrades.

116. As illustrated in the chart below, not only was U.S. Steel not reinvesting or maintaining its facilities, but it had slashed its capital expenditure investments throughout 2015 and 2016 by a total of 44.9% in total year-over-year. With respect to capital expenditures in the Company's Flat-Rolled facilities, in particular, Defendants slashed the Company's capital expenditures by a remarkable 66.9% year-over-year.

| Quarter | Capital Expenditure | | Percentage Change | |
|---|---|---|---|---|
| | Total | Flat-Rolled | Total | Flat-Rolled |
| Q1 2015 | $109 M | $69 M | - | |
| Q2 2015 | $104 M | $56 M | -4.5% | -18.8% |
| Q3 2015 | $142 M | $72 M | 36.5% | 28.6% |
| Q4 2015 | $146 M | $84 M | 2.8% | 16.67% |
| FY 2015 | $500 M | $280 M | - | - |
| Q1 2016 | $148 M | $46 M | 1.4% | -45.2% |
| Q2 2016 | $69 M | $28 M | -53.4% | -39.1% |
| Q3 2016 | $51 M | $23 M | -26.1% | -17.9% |
| Q4 2016 | $38 M | $14 M | -25.5% | -39.1% |
| FY 2016 | $306 M | $111 M | -44.9% | -66.9% |

117. A confidential witness in the Securities Class Action, stated that "***everybody*** knows that" the Company was under-investing. It was "common knowledge" within U.S. Steel. According to the confidential witness, one example of Defendants' cut of the capital budget involved the Edgar Thomson plant. The confidential witness explained that the Edgar plant was allocated money for capital improvement projects each year. However, invariably when the capital improvement projects were presented for approval, the same response was always received - the capital improvement money was being cut and allocated elsewhere, usually because something had broken that needed immediate attention. The confidential witness informed the manager at Edgar Thomson of all the issues concerning under-investing but U.S. Steel kept running its equipment "into the ground."

118. In another instance, yet another confidential witness in the Securities Class Action stated that in the last year of the confidential witness employment there was supposed to be money allocated to blast furnaces but the blast furnace projects could not have been getting done since Blast Furnace 14 at Gary Works ended up going "completely down" at some point between January 2016 and May 2016.

### F. Carnegie Way Purported Cost Savings Were a Sham

119. According to several confidential witnesses in the Securities Class Action, the Carnegie Way program was a sham because many of the purported savings were not real or the projects had actually not been completed or even implemented yet and, thus, were not "realized." For example, one confidential witness explained that during the end of 2015 and during 2016, U.S. Steel began extending payment terms to vendors from 30 days to 60 days and eventually 120 days. U.S. Steel then attributed purported cost savings to paying vendors late as a Carnegie Way benefit. The confidential witness stated that the vendor payment terms were changed by the General Manger of Purchasing in the Pittsburgh corporate office and seemed to be part of the Company's cost cutting efforts. Extending payment terms to vendors did not save the Company money because vendors would become angry and stop selling parts and supplies to the Company.

120. In another example, Goodish described a sham cost-cutting benefit that he learned about in 2016 from a current U.S. Steel employee who worked in purchasing at U.S. Steel. This employee described to Goodish that U.S. Steel obtained three price quotes from vendors for every purchase and then, after selecting the lowest bid, reported the difference in price between the highest and lowest bid as a Carnegie Way benefit.

121. In addition, throughout 2015 until this witness left the Company in 2016, another confidential witness attended weekly "war room" meetings where new and existing projects were discussed, including the nature of the project, potential cost savings, plans for implementing the projects and other details. At these "war room" meetings, the confidential witness observed that projects designated as being at the D-Gate1 (Define) phase on Monday would miraculously be at the D-Gate 5 (Control) phase by Friday of the same week. The confidential witness was baffled as to how these projects could move so quickly on the scale, especially considering the extreme age of Gary Works since older infrastructures cannot be changed that quickly. The confidential witness was further baffled as to how purported cost savings (which could be as much as $4-5 million in claimed savings per project) could be reported for these projects because they ***had not yet been implemented***.

122. In addition, the confidential witness observed that in some instances, projects that would take a long time to complete, would miraculously be at D-Gate 5 by the end of the week. The confidential witness commented that individuals responsible for each project just had to call this witness' boss, Robert Lange, the Director of Change Transformation, and request that he advance a project and Lange would do so regardless of whether the project had actually been implemented.

123. According to the confidential witness, this witness observed ***multiple projects per week*** that moved through the D-Gate scale from Monday to Friday, just a five-day period, that could not possibly have been completed in that short of a timeframe. The confidential witness also observed that there was a general increase in this activity towards the end of quarters, which reflected a need "to get the numbers in" before the end of a period so that purported Carnegie Way cost savings could be reported in U.S. Steel's quarterly reports to the market. With all the layoffs, the confidential witness commented that people were afraid their jobs would "be on the chopping block" if they did not "produce value" by having their projects advance through the D-Gate system.

124. Despite the truth – that the Carnegie Way was a sham – Defendants consistently assured investors throughout the Relevant Period that U.S. Steel was

investing in new technologies and maintaining its facilities pursuant to Carnegie Way.

125. As discussed below, while deferring maintenance, repairs and asset upgrades may have saved money in the short-term, these decisions often ended up costing U.S. Steel more money in the long run.

### G. U.S. Steel's Decision to Defer Maintenance and Capital Investments Results in Costly, Unplanned Outages, Lower Utilization Rates, and Lower Capacity at U.S. Steel Facilities

126. It is commonly known within the steel industry that "[s]teel mills can be more prone to [unplanned] outage[s] as a result of increasingly deferred maintenance."[12]

127. According to a confidential witness in the Securities Class Action, the "vast majority" of equipment at U.S. Steel facilities was made between 1930 and 1960 and, consequently, required "a lot more repair and maintenance" than contemporary equipment. In fact, prior to and throughout the Relevant Period, U.S. Steel faced a higher degree of operating leverage compared to the industry cost curve because it produced steel exclusively through the use of blast furnaces, which are older, less efficient, and produce greater fluctuations in capability

[12] Michelle Applebaum, *The Misconceptions and Realities of Today's Steel Market*, AMERICAN METAL MARKET (Oct. 31, 2013).

utilization than electric arc furnaces which were used, at least in part, by the majority of U.S. Steel's competitors.

128. As detailed further below, Defendant Longhi and other U.S. Steel executives admitted under oath in their testimony before the U.S. International Trade Commission,[13] *inter alia* that "[u]nfortunately, those investments that we need to make are being -- ***we're not able to make them right now;"*** "[t]he situation we face is very grave," and the Company's financials "are nowhere near where they need to be for us to invest in our future."

129. As a result of U.S. Steel's decisions to idle and close mills and "swing facilities," its draconian cuts in capital investment and deferral of maintenance and repairs, as well as its massive layoffs of maintenance employees, the Company was required to operate flawlessly at nearly peak capacity all of the time – an impossible task given the age of U.S. Steel's outdated furnaces. One confidential witness in the Securities Class Action explained that swing facilities were U.S. Steel facilities that were available to absorb production if and when a plant suffered an unplanned outage. Because every facility was operating at max capacity due to the shutdowns, however, there were no swing facilities available to divert production when a plant outage occurred. According to the confidential

[13] Defendants' testimony before the ITC was not contained, cited or referenced in any of Defendants' public statements, analyst reports or any other media sources.

witness, inevitably, the Company's infrastructure could not sustain such production without regular maintenance and repairs and, thus, fell into disrepair beginning in 2015, before the beginning of the Relevant Period and only continued to worsen throughout the Relevant Period.

130. Also in 2015, the Company suffered $9 million in losses as a result of an electrical generator breaking at U. S. Steel's Mon Valley facility. Specifically, one confidential witness in the Securities Class Action explained that the Mon Valley plant had two electrical generators that were over 70 years old and would repeatedly break. After the "band-aid" could no longer revive one of the electrical generators, the Company was forced to obtain electricity elsewhere. This turned out to be extremely costly, as it took nine months to obtain a new generator and it cost the Company $1 million per month to obtain electricity from another source.

131. Thereafter, beginning at least by the second quarter of 2016, the Company's Gary Works plant – which Defendant Longhi described during the Company's April 26, 2017 earnings call as "one of our most critical assets" – suffered a cascade of undisclosed ***unplanned*** outages throughout the year.

132. According to a confidential witness in the Securities Class Action, it was sometime during January and May 2016 that the wiring for Blast Furnace 14, one of the biggest at the Gary Works facility, was flooded, causing the entire furnace to shut down "for upwards of two weeks."

133. Soon after that, in May 2016, U.S. Steel also suffered unplanned outages at its Great Lakes Works facility ***that it did not disclose in its quarterly filings***. After being sent a violation notice from the Michigan Department of Environmental Quality regarding the facility's D4 and B2 blast furnaces, U.S. Steel responded by way of a letter dated May 11, 2016, which was signed by Jon Olszewski, the Primary Plant Manager for Great Lakes Works, and Alexis Piscitelli, the Director of Environmental Control at Great Lakes Works. A carbon copy of the letter was sent to Dave Hacker, U.S. Steel's General Attorney. In the May 11, 2016 letter, the Company averred that on, "Monday April 4th, 2016, United States Steel Great Lakes Works D4 Blast Furnace ***was in recovery state from a process malfunction***."[14]

134. One confidential witness in the Securities Class Action stated that the unplanned outages in 2016 occurred "quarter after quarter" and resulted in "thousands of tons of missed steel production" and "hundreds of millions of missed revenue." The confidential witness further explained that unplanned outages could not be predicted and, without swing plants available to divert production during these unplanned outages, production had to be halted. When

---

[14] *See* http://www.deq.state.mi.us/aps/downloads/SRN/A7809/A7809_RVN_20160511.pdf.

production is halted or delayed, then the delivery of a customer order is halted or delayed as well, resulting in lost revenue.

135. According to the confidential witness, production shortfalls in 2016 were "a good bit short" and more than the confidential witness had ever seen, estimating that they were likely as much as 20% short in 2016. The confidential witness was able to make such an estimate because the confidential witness' position required knowledge of manufacturing capacity verses the actual production in order to create a production plan. The confidential witness stated that this witness further knew this information because he reviewed daily reports in the Company's Oracle system, which were closely scrutinized by the Company, and which tracked the actual production verses anticipated production goals. Based on these reports, it was easy to see that actual production was "not even close" to the planned production amount. This was a "painful lesson" for U.S. Steel because "no one wants to give up revenue."

136. The confidential witness believed U.S. Steel's apparent strategy of underinvesting to be "pennywise/pound foolish" because the corporate office decided to build up the Company's cash position by cutting back on maintenance, which came at the cost of being unable to meet customer needs and resulted in U.S. Steel losing revenue when it could not fulfill customer orders.

137. As demonstrated in the chart below, contrary to U.S. Steel's contemporaneous Relevant Period public statements claiming U.S. Steel was experiencing "fewer unplanned outages," such unplanned outages were significantly increasing during the Relevant Period as a result of U.S. Steel's decision to forego needed maintenance and capital spending:

| Date | Facility | Length of Outage | Cost | Source |
|---|---|---|---|---|
| Q1 2014 | Great Lakes Works - Steel shop went "offline" | Half of the second quarter 2014 | Unknown | Michael Cowden, *No Summer Doldrums For Flat Steels: Longhi,* AMERICAN METAL MARKET (July 30, 2014) |
| 2015 | Mon Valley - Electrical Generator broke down | Nine months | $9 million | CW#9 – cost $1 million per month |
| November 2015 | Great Lakes Works - two blast furnaces not running | Unknown | Estimated at $1 million per day per CW#9 | Michael Cowden, *USS Restarts Second Great Lakes Works BF,* American Metal Market (Nov. 25, 2015) |
| April 2, 2016 | Gary Works - Blast Furnace 14 underwent "unscheduled maintenance" | Two to three days | $2-$3 million | Thorsten Schier, *U.S. Steel Slates Gary Works Furnace Outage,* AMERICAN METAL MARKET (Apr. 7, 2016) |
| April 4, 2016 | Great Lakes Works - D4 Blast Furnace was in "recovery state from a process malfunction" | Unknown | Unknown | May 11, 2016 Letter to State of Michigan, Department of Environmental Quality |
| April 2016 | Gary Works - Blast Furnace 14 flooded | Upwards of two weeks | $14 million | CW#1<br><br>Michael Cowden, *USS Restarts Gary Works' No. 14 BF,* AMERICAN METAL MARKET (Apr. 26, 2016) |
| Third Quarter 2016 | "Several . . . steelmaking and finishing facilities" experienced unplanned outages<br><br>Loss of 125,000 tons of production at flat-rolled operations | Last half of the third quarter | Unknown | U.S. Steel November 1, 2016 Press Release |
| Around October 2016 | Mon Valley - Electrical Generator broke | Unknown | Unknown | CW#9 |
| Fourth Quarter | Edgar Thomson - "cooling media" in the | U.S. Steel Q1 2017 | $2 million | CW#10; |

| | | | | |
|---|---|---|---|---|
| 2016 | Cooling Towers melted (¶ 162) | Presentation states repair made in first quarter 2017 | | U.S. Steel Q1 2017 Presentations disclosed this was repaired in Q1 2017 |

138. Although these unplanned outages occurred in 2015 and throughout 2016, including before and after the Secondary Public Offering, U.S. Steel failed to disclose to investors important details, including the nature of the outages, the length of them, the cost to the Company or that such unplanned outages ever occurred.

139. The parade of unplanned outages throughout 2016 wreaked havoc on the Company's capability utilization, which equals the raw steel tonnage produced divided by the tonnage capability of the Company to produce raw steel for a sustained full order book. During the Company's February 1, 2017 earnings call, Defendant Longhi admitted that "[t]he capacity utilization for the finishing last year was pretty tight, and this was the reason why Dan [Lesnak] was saying that some of the investments that we are going to be making, they are going to be given as a capability to do better products, but also to be able to push [capability utilization] up a little bit."

140. As reflected in the charts set forth below, the Company's capability utilization in its flat-rolled segment shrunk, bottoming out at 57% as compared to the industry average of 80%:

| Period | Utilization % |
|---|---|
| Three Months Ended March 31, 2015 | 60% |
| Three Months Ended June 30, 2015 | 58% |
| Three Months Ended September 30, 2015 | 66% |
| Three Months Ended December 31, 2015 | 57% |
| Three Months Ended March 31, 2016 | 66% |
| Three Months Ended June 30, 2016 | 65% |
| Three Months Ended September 30, 2016 | 64% |
| Three Months-ended December 31, 2016 | 57% |
| Three Months Ended March 31, 2017 | 65% |

141. These utilization rates are problematic. As Longhi admits, "Blast furnaces are untamable beasts when it comes to flexibility. You have to operate at very high utilization. If you don't, the level of instability you create sometimes is untenable."[15]

142. Despite that U.S. Steel was experiencing costly, unplanned outages and a drastic decrease in capability utilization resulting in as much as 20% less tons of steel produced and, thus, correspondingly less revenue, Defendants falsely represented that the Company was continuing to invest in its facilities and the RCM Carnegie Way initiative.

### H. The Individual Defendants Were Aware that U.S. Steel was Deferring Important Maintenance and Repairs Through the Daily Report of Operations and Operating Efficiency Report

143. According to Goodish, during his employment he created and implemented a Daily Report of Operations to assist in reviewing and analyzing the Company's daily operational performance. Goodish stated that the DRO was

[15] Michael Cowden, *USS Aims to Be Iconic Again Despite Downturn*, AMERICAN METAL MARKET (Oct. 15, 2015).

published every morning at approximately 5:30 a.m. and was widely available throughout U.S. Steel. All executives, including Burritt, Longhi and Lesnak, could access the DRO from their desktop by clicking on an icon linked to the Company's internal website. In addition, as previously stated above, the Board (by way of the Company's CEO sitting as a member of the Board) would have reasonably been kept informed of such day to day operations throughout the Relevant Period.

144. Goodish reviewed the DRO report every morning "because that was [his] job." As COO, Goodish explained that he was responsible for overseeing the operations of the Company, including designing and implementing business processes, establishing policies and overseeing executives. One confidential witness in the Securities Class Action described the DRO as the "Bible" and "number 1 report" to review for those employees who worked in operations and needed to know how facilities were performing.

145. The confidential witness confirmed that the DRO was "well accessible," "used widely" and "anyone" at U.S. Steel could access the reports on the Company's internal website.

146. According to Goodish, the DRO Report contained various operational data, metrics and statistics reported internally from each plant (e.g., Gary Works, Granite City, etc.). Among the most important metrics were: (1) tons produced; (2) tons shipped; (3) scheduled tons for the day, week, and month-to-date; and (4) tons

per scheduled turn. One confidential witness explained that capacity was measured by how many tons of steel could be produced by a facility "per turn" and there were three turns per day.

147. One confidential witness in the Securities Class Action also reviewed an Operating Efficiency Report ("OER"), which was prepared monthly and contained information by facility (e.g., Great Lakes) and by unit (e.g., Blast Furnace #14). The OER contained metrics such as delay rate/percentage (indicating downtime from repairs and/or outages), production tons, variable and fixed costs, yield, man hours per ton and utilization, among other metrics, for the prior five years and monthly for the current year. According to the confidential witness, the OER was available from the Pittsburgh headquarters website and, thus, the Individual Defendants had access to the OER.

148. This confidential witness stated that this witness knew the Individual Defendants reviewed the OER because they discussed information contained in the reports at quarterly meetings for operations managers. The confidential witness recalled the quarterly meetings primarily took place in Pittsburgh and were attended by approximately 120 managers and included Defendants Longhi and Burritt wherein U.S. Steel's financial performance, capital spending and other issues were discussed.

149. According to Goodish, one key metric in the DRO from his view was the delay percentage. The delay percentage was calculated as the tons per scheduled turn compared with actual tons produced. A delay percentage of greater than 15% indicated an operational issue that needed immediate attention. A confidential witness in the Securities Class Action confirmed that if the stated capacity of a given facility was, for example, 6,000 tons but the actual production was 4,000 tons (e.g., a 33.33% delay), this would be a "red flag."

150. Recently, a current employee of U.S. Steel told Goodish that delay rates on the Hot Strip Mills at Gary Works and Mon Valley were between 35 and 50%, significantly above normal rates of 15%. Delay rates above 15% indicate significant operational problems.

151. The above confidential source accounts are corroborated by the decline in steel shipments, unplanned outages and decreased capital and maintenance spending, among other facts alleged herein, that occurred prior to and throughout the Relevant Period.

152. As discussed above, as a result of unplanned outages and costly repairs from Defendants' failure to invest in and maintain its assets, U.S. Steel's facilities had been "across the board falling short" on production by "thousands of tons of missed steel production" amounting to approximately 20% of total missed production and resulting in "hundreds of millions of dollars of missed revenue."

This information would have been reported in the DRO and/or OER reports that Defendants reviewed, and therefore knew about or recklessly ignored.

### I. U.S. Steel Provides Sworn Testimony Corroborating the DRO and OER Reports that, Contrary to the Individual Defendants' Public Statements, U.S. Steel is Not Investing in, and Maintaining its Facilities

153. As detailed further below, prior to and throughout the Relevant Period, U.S. Steel assured investors that U.S. Steel was investing in its assets and maintaining its facilities, stating for example that:

> ***We continue to implement our reliability centered maintenance process across all of our facilities. We are starting to see the benefits as we have experienced fewer unplanned outages and lower maintenance costs***, and are allowing for a more efficient allocation of our maintenance labor force. ***We are creating a more reliable and agile operating base*** that lowers our break-even point, with a key focus on lowering our hot-rolled band costs through operating and process efficiencies.

(Emphasis added).

154. Yet in direct contradiction to these statements, U.S. Steel and other U.S. Steel executives were testifying under oath before the U.S. International Trade Commission that the Company was not reinvesting in its technology or undertaking necessary capital expenditures to sufficiently maintain its facilities,

stating for example: "investments that we need to make are being – ***we're not able to make them right now***."[16] (Emphasis added).

155. Specifically, throughout 2015 and 2016, U.S. Steel and several other domestic steel producers filed complaints with the U.S. International Trade Commission to initiate investigations under Title VII of the Tariff Act of 1930 to determine if China and certain other countries were involved in dumping steel in U.S. markets or were subsidizing steel sold in U.S. Markets. U.S. Steel also filed a complaint to initiate an investigation under Section 337 of the Tariff Act of 1930 against the largest Chinese steel producers and their distributors, as well as other foreign steel producers. The Section 337 complaint alleged illegal unfair methods of competition and sought the exclusion of all unfairly traded Chinese steel products from the U.S. market.

156. In testimony under oath before the ITC in the anti-dumping investigations, U.S. Steel and other U.S. Steel executives admitted that the Company was not investing in, or maintaining, its assets, which directly contradicted their public statements to investors. For example, U.S. Steel made the following contradictory statements to the ITC, under oath:

---

[16] *See* Robert Kofpf, U.S. Steel, August 18, 2015 Transcript in Cold-Rolled Steel Flat Products from Brazil, China, India, Japan Korea, Russia and the United Kingdom (Investigation Nos. 701-TA-540-544 and 731-TA1283-1290)

| Date | Speaker | Statement |
|---|---|---|
| August 18, 2015 | Doug Matthews, U.S. Steel's Senior Vice President of Industrial, Service Center and Mining Solutions | As the U.S. grew out of the recent economic crisis and demand for cold-rolled steel increased, ***U.S. Steel had an opportunity to grow its business to reinvest in technology,*** and its workers and undertake useful capital expenditures. ***However, subject imports deprived U.S. Steel and other U.S. producers of this opportunity***. |
| August 18, 2015 | Doug Matthews, U.S. Steel's Senior Vice President of Industrial, Service Center and Mining Solutions | "Let me be clear, the current situation is not sustainable. We cannot afford cold-rolled steel at such low prices. ***We cannot afford to keep operating at such low levels of capacity utilization***. If these conditions continue, ***there is no question that there will be further shutdowns and layoffs*** throughout the industry." |
| August 18, 2015 | Doug Matthews, U.S. Steel's Senior Vice President of Industrial, Service Center and Mining Solutions | ***The situation we face is very grave***. Only yesterday we were forced to announce the shutdown of all steel making and rolling operations at our facility in Fairfield, Alabama. A decision which was really hard…. |
| August 18, 2015 | Rob Kopf, US Steel's General Manager | ***So we're having to spend enormous amounts of money to put together alternatives for our customers, to still buy steel. Unfortunately, those investments that we need to make are being -- we're not able to make them right now***, given the fact that these people are coming in and taking $750 million of revenue that this industry should have used to invest in further products. |
| September 29, 2015 | Robert B. Schagrin, Counsel for Domestic Steel Industry | And when you go through periods in which competition gets tougher, and pricing gets worse, and ***you've got a mill that has been under-invested, that's going to close. And one of the things that shocks me, and it came about as I was, you know, listening in a recent case about the closure of most of U.S. Steel Fairfield, I was saying, wow, that was, you know, trumpet is such a great new state-of-the-art mill, and then I was thinking, yeah, that's when I started doing this in the early '80s, you know?...Because even a super duper brand new mill in an area like steel, if you under-invest*** |

| | | |
|---|---|---|
| | | ***for 10 years, all of a sudden you're not going to be competitive anymore***. |
| May 24, 2016 | Mario Longhi, U.S. Steel Chief Executive Officer | More than half of the Domestic Producers reported operating at a net loss in 2015. ***At the risk of stating the obvious, these results do not even come close to representing a sufficient return for a capital-intensive industry like ours***.<br><br>***I'm choosing my words carefully when I say that for an industry that must invest and innovate to survive, these results occurring in a period of excellent demand are simply catastrophic***… |
| May 24, 2016 | Mario Longhi, U.S. Steel Chief Executive Officer | "The last two years should have been banner years for American cold-rolled steel producers. We should have been able to increase our sales, operate our plants on maximum capacity utilization levels, hire more workers, ***make badly needed profits and re-invest some of those profits into new technologies and new products***." |
| May 24, 2016 | Mario Longhi, U.S. Steel Chief Executive Officer | ***[O]ur company and our industry have experienced dramatic declines in production, sales and capacity utilization. The effects have been disastrous. In cold-rolled steel, the American industry's operating income and operating margins have been low and continue to decline. <u>In fact, they are nowhere near where they need to be for us to invest in our future</u>***, to compete at home and abroad and to comply with all the environmental and regulatory requirements that we face. |
| June 24, 2017 | Doug Matthews, U.S. Steel's Senior Vice President of Industrial, Service Center and Mining Solutions | Demand for corrosion resistant steel is the strongest since 2007 and yet U.S. Steel has not had a fair chance to take full advantage of this demand because of unfairly traded imports. ***We will never know the new products that we could have invested in***, or the number of new workers that could have been hired. |

157. In addition to this testimony, U.S. Steel was required to fill out confidential questionnaires in connection with each antidumping and countervailing duty complaint filed with the ITC, which detailed the Company's capital expenditures and effects on investments, amongst other information. Based on a blank questionnaire, issued in the corrosion-resistant steel investigation

(final), page 7, for example, U.S. Steel was required to detail any changes in its facility operations such as prolonged shutdowns, disruptions, or production curtailments. The questionnaire, at pages 11-12, also required U.S. Steel to report its average production capacity versus actual production.

158. In testimony before the ITC on May 26, 2016 in Certain Corrosion-Resistant Steel Products from China, India, Italy, Korea, and Taiwan (Investigation Nos. 701-TA-534-538 and 731-TA-1274-1278), expert Jim Dougan of Economic Consulting Services, LLC testified on behalf of respondents, stating:

> In presenting its case, the domestic industry points to an increase in subject import volume, a decline in market share and allegedly inadequate profits, but without acknowledging some of the basic realities of the marketplace.
>
> * * *
>
> To begin, there were no adverse volume effects by reason of subject imports. First, subject imports' volume increased only in 2014 when the Commission found no reasonable indication of current material injury. As shown in prehearing report Table C-1, during 2014, the industry's production and capacity utilization increased and were at their highest levels of the POI.
>
> ***The industry's reported capacity utilization in both 2014 and 2015 would undoubtedly been higher if not for the effect of supply disruptions that limited the practical capacity of many domestic producers and drew both subject and non subject imports into the market.***
>
> Interestingly, in presenting their injury case, petitioners made no mention of these well-documented supply disruptions. Instead, they blamed subject imports for their decrease in market share, making no mention of the impact of 2014's cold winter on their operations. But in

addition to the bad weather events of 2014, ***the domestic industry undertook extended maintenance outages and closed inefficient and outdated equipment lines in 2014, 2015 and 2016, none of which are attributable to subject imports.***

There are a myriad of contemporaneous press articles that document these disruptions, attached to respondents' prehearing brief. And much of that information is public, so I'll be happy to expand on that later if you like.

***U.S. Purchaser's Questionnaires in the final phase confirmed these supply disruptions***. Sixteen of forty-two purchasers reported supply constraints, and fourteen of them, which represent a very significant percent of purchases, their allegations repeated at prehearing brief for our Korean respondents, Pages 29 to 31.
*These were not fictional supply constraints. They were real and they were significant.* ***In the case of U.S. Steel alone, one article noted that they lost 400,000 tons of production in 2014***.

* * *

The key employment indicators all rose from 2013 to 2015, and absent one producer, the sales volume of the rest of the industry increased. ***Additionally, although the domestic industry's market share declined, as we discussed in the prehearing briefs, it was attributable to significant supply disruptions in 2014 and 2015, the effects of which continue into the current year.***

* * *

So, you know, there is a number of these things that -- this isn't limited to January through March of 2014. ***This recurred again and again and again and it may have been most severe -- I mean the US Steel, 400,000 tons, 400,000 tons in 2014. That's a big number. And that was the most significant***, which is why you hear the most about it. But these things did not stop them.

(Emphasis added).

159. Thus, while Defendant Longhi was assuring investors throughout the Relevant Period that, *inter alia*, "[w]e are starting to see the benefits as ***we have experienced fewer unplanned outages and lower maintenance costs***," "there has been and will be sustainable cost improvements through process efficiency and ***investments in reliability centered maintenance***," and "***no, we have not been under-spending***," (emphasis added), he was contemporaneously pleading with the ITC that "those investments that we need to make are being – ***we're not able to make them right now***," "[t]he situation we face is very grave," and the Company's financials "***are nowhere near where they need to be for us to invest in our future***." (Emphasis added).

**J. U.S. Steel Launches Strategically Timed Secondary Offering**

160. As discussed above, the Company's failure to engage in preventative maintenance and timely repairs resulted in numerous unplanned outages, which cost the Company as much as $1 million per day. As the number of outages and plant shutdowns increased in 2016, the Company was in desperate need of cash to continue its operations and repair its facilities. Accordingly, U.S. Steel discretely engaged in a secondary offering in August of 2016. At the time of the SPO, the Company stated it intended to "use the net proceeds from the offering for financial flexibility, capital expenditures and other general corporate purposes." However, on April 25, 2017, Defendant Longhi admitted that the true reason the SPO was

conducted was "to give us the financial strength and liquidity ***to position us to establish an asset revitalization plan <u>large enough</u> to resolve our issues*** and to see that plan through to completion." (Emphasis added).

161. Specifically, on August 8, 2016, Defendants filed a preliminary prospectus supplement (the "SPO Prospectus") with the SEC indicating the Company would be offering 17 million shares of common stock for sale. The SPO Prospectus also granted the underwriters an option to purchase up to an additional 2.55 million shares of common stock. The underwriters for the SPO include J.P Morgan Securities LLC, Goldman Sachs & Co., Barclays Capital Inc., Wells Fargo Securities, LLC, Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Inc., PNC Capital Markets LLC, Scotia Capital (USA) Inc., Citizens Capital Markets, Inc., SunTrust Robinson Humphrey, Inc., BNY Mellon Capital Markets, LLC, Citigroup Global Markets, LLC, Commerz Markets LLC, The Huntington Investment Company, SG America Securities, LLC, The Williams Capital Group, L.P., and ING Financial Markets LLC.

162. A few days later, on August 11, 2016, the Company filed a prospectus supplement (the "Expanded SPO Prospectus") announcing that the size of the SPO was being expanded to 18.9 million shares of common stock. The Expanded SPO Prospectus reiterated that the SPO was being conducted for "financial flexibility,

capital expenditures and other general corporate purposes." The Expanded SPO Prospectus also granted the underwriters an option to purchase an additional 2.835 million shares of common stock.

163. The SPO was a firm commitment underwriting meaning the underwriters agreed to purchase all of the shares in the offering and sell them to the investing public. Accordingly, pursuant to the Underwriting Agreement between U.S. Steel and the underwriters, each underwriter was obligated to purchase the following number of shares:

| Underwriter | Number of shares |
|---|---|
| J.P Morgan Securities LLC | 6,418,240 |
| Goldman Sachs & Co. | 5,348,534 |
| Barclays Capital Inc. | 1,355,730 |
| Wells Fargo Securities, LLC | 1,355,730 |
| Credit Suisse Securities (USA) LLC | 625,722 |
| Morgan Stanley & Co. LLC | 625,722 |
| Merrill Lynch, Pierce, Fenner & Smith Inc. | 725,736 |
| PNC Capital Markets LLC | 343,770 |
| Scotia Capital (USA) Inc. | 343,770 |
| Citizens Capital Markets, Inc. | 229,180 |
| SunTrust Robinson Humphrey, Inc. | 229,180 |
| BNY Mellon Capital Markets, LLC | 190,983 |
| Citigroup Global Markets, LLC | 190,983 |
| Commerz Markets LLC | 190,983 |
| The Huntington Investment Company | 190,983 |
| SG America Securities, LLC | 190,983 |
| The Williams Capital Group, L.P. | 190,983 |
| ING Financial Markets LLC | 152,788 |
| **Total:** | **18,900,000** |

164. In total, U.S. Steel issued 21.735 million shares of common stock in the SPO at a price of $23.00 per share, netting proceeds of approximately $482 million.

165. Meanwhile, unbeknownst to U.S. Steel investors, and as later admitted on April 25, 2017 by Defendant Longhi, these funds were expected to be used for a much needed asset revitalization program to make up for the fact the RCM program was never implemented. Defendant Longhi's April 25, 2017 admission leaves no doubt as to the reason for the SPO, when he unequivocally stated that "***[w]e issued equity last August to give us the financial strength and liquidity to position us to establish an asset revitalization plan large enough to resolve our issues***, and to see that plan through to completion." (Emphasis added).

166. Accordingly, the SPO was conducted to provide funds for immediate and costly updates as a result of the increased unplanned outages and other operational challenges faced by U.S. Steel, and was not conducted for "financial flexibility" as originally represented to investors.

### K. With the "Writing on the Wall," Defendants Longhi and Burritt Quickly Sell the Majority of their Personal Holdings of U.S. Steel Stock

167. While Defendants were fully aware that U.S. Steel's Flat-Rolled facilities were experiencing increased unplanned outages and other operational challenges that necessitated immediate costly updates and improvements, the Individual Defendants unloaded their holdings of U.S. Steel stock at inflated prices. These sales began immediately after U.S. Steel's November 2016 announcement that the Company had faced "some operational challenges,"

including “unplanned outages in the third quarter [2016],” but while U.S. Steel’s stock price was still artificially inflated by the SPO and Defendant Longhi’s tempering, unequivocal assertion on a November 2, 2016 conference call, that:

> And ***I would offer that, no, we have not been under-spending***. What we’ve been doing is, we’ve only been able to accomplish what we’ve accomplished and gotten to the position that we are, because ***we’ve been investing appropriately in making sure that everything that we know is being addressed and moving to minimize the conditions that we experienced in the past quarter, which is unplanned events. So we’ve been able to get to this point, because we've been doing all of the right things.***

(Emphasis added).

168. As detailed further below, the Individual Defendants sold approximately $25 million of personally held common stock over an abbreviated timeframe, under circumstances that were extremely suspicious in timing and amount. Specifically, neither Defendant Longhi nor Burritt had sold a single share of common stock before the start of the Relevant Period. Then, beginning just after U.S. Steel’s partial disclosure of “some operational issues” and “unplanned outages” at its Flat-Rolled facilities on November 1, 2016 (and simultaneous representation by Defendant Longhi that “we have not been under-spending” and that “we’ve been investing appropriately”), they collectively sold or determined to sell 699,671 shares of U.S. Steel common stock over the course of only eight trading days, for total proceeds of $24,980,414.46.

169. These sales began with Defendant Burritt's transaction on November 23, 2016 – just weeks after the Company's tempered partial disclosure of "some operational issues" and "unplanned outages" – where he sold $1,686,315 worth of common stock. Only two trading days later, on November 28, 2016, Defendant Longhi followed suit and sold shares for proceeds of $8,938,688 worth of common stock. Over the next seven trading days, between December 5 and 7, 2016, Longhi sold $5,775,142 worth of common stock. On February 21, 2017, Defendant Burritt sold shares of common stock for proceeds of $8.4 million. Thus, in effect, U.S. Steel's two primary executives sold or determined to sell, in parallel, $25 million of personally held common stock over the course of only two weeks, immediately following their partial disclosure of "some operational issues," and "unplanned outages."

170. These sales often correlated with market moving news days and/or days in which the Individual Defendants were in possession of material non-public information. For example, the executives' trades began shortly after the Company's August 2016 SPO, which was later disclosed to have been conducted to fund the Company's critically necessary asset revitalization process as U.S. Steel's Flat-Rolled facilities were experiencing severe operational issues and outages. Indeed, Defendant Longhi subsequently admitted on the last day of the Relevant Period – after he and Defendant Burritt had successfully sold

approximately 57% and 64%, respectively, of their personal holdings – that the SPO had been conducted to "establish an asset revitalization plan *large enough* to resolve our issues." Further, Burritt sold approximately $8,363,327 in common stock on February 21, 2017, only eight days before he took over day-today control of the Company.

171. In total, Defendant Longhi sold 443,250 shares over eight trading days for total proceeds of $14,930,871.40 representing 57% percent of his holdings and has not transacted since, while Defendant Burritt sold or determined to sell 256,421 shares over five trading days for total proceeds of $10,049,543.06 representing 64% percent of his holdings and has not sold a sing share of U.S. Steel stock since.

### L. U.S. Steel's Decreased Production and Capacity Utilization Cause the Company to Lose Significant Market Share

172. As a result of U.S. Steel's decisions to defer maintenance and facility upgrades, U.S. Steel was unable to contend with competitors who maintained and repaired their modern equipment (such as mini mills using electric arc furnaces), which they use rather than older blast furnaces used in integrated steel production – which U.S. Steel uses exclusively.

173. Mini-mills can more easily adjust production volume in response to changes in demand, and the steel market improved over the course of 2016, making it much easier for competitors to adjust to this demand with their electric

furnaces. By deferring maintenance and upgrades, U.S. Steel was unable to increase shipments and capacity utilization as nimbly as competitors such as Nucor Corporation, AK Steel Holding Corporation, and Steel Dynamics, Inc. In fact, Defendants' decisions exacerbated the situation by causing outages and missed shipments which affirmatively reduced U.S. Steel's market share.

174. The disparity between Defendants' capital spending and its peer group is illustrated in the chart below, which shows that while steel companies, such as Nucor Corporation, were increasing capital expenditures and investing in the future, U.S. Steel was doing the complete opposite and continuously decreasing its spending and focusing on near term cost cutting:


175. Indeed, as May 4, 2017 article from The Motley Fool, entitled "United States Steel Corporation Stock Plunged 34% in April: What Now?", the author

noted "[w]hile Nucor turned the downturn into an opportunity by acquiring businesses and keeping its existing facilities in shape, U.S. Steel is upgrading its core facilities and fixing up inefficiencies now, at a time when it should be improving operational rates."

176. As demonstrated in the chart below, based upon data from the 2016 Form 10-K and the 2016 Annual Statistical Report produced by the American Iron and Steel Institute,[17] U.S. Steel's market share shrunk year-over-year between 2014 and 2016 in every product category except coated steel, which remained approximately level between 2015 and 2016:

| **U.S. Steel Shipments Compared with American Iron and Steel Institute Net Shipments by Domestic Producers[18]**<br><br>**(in thousands of tons)** | | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| **Hot Rolled Sheets** | | | |
| - U.S. Steel | 4,909 | 3,283 | 2,784 |
| - AISI Hot Rolled Sheets | 22,739 | 20,578 | 21,161 |
| **U.S. Steel Share of AISI Total** | **21.59%** | **15.95%** | **13.16%** |
| | | | |

[17] The American Iron and Steel Institute is a trade association of North American steel producers, including U.S. Steel, which was founded in 1908 by Elbert H. Gary who was U.S. Steel's chairman at the time.

| | | | |
|---|---|---|---|
| **Cold Rolled Sheets** | | | |
| - U.S. Steel | 4,207 | 3,507 | 3,775 |
| - AISI Cold Rolled Sheets | 11,248 | 10.038 | 10,972 |
| **U.S. Steel Share of AISI Total** | **37.4%** | **34.9%** | **34.4%** |
| | | | |
| **Coated Sheets** | | | |
| - U.S. Steel | 3,316 | 2,511 | 2,655 |
| - AISI Hot Dipped, Electrolytic, all other metallic coated sheets and strips | 18,199 | 17,674 | 18,316 |
| **U.S. Steel Share of AISI Total** | **18.2%** | **14.2%** | **14.5%** |
| | | | |
| **Tubular** | | | |
| - U.S. Steel | 1,622 | 593 | 400 |
| - AISI Standard Pipe, OCTG, line pipe | 4,400 | 2,229 | 2,070 |
| **U.S. Steel Share of AISI Total** | **36.9%** | **26.6%** | **19.3%** |

177. At the same time U.S. Steel ultimately announced a net loss of $180 million in the First Quarter of 2017, its competitors all announced profits. For example, on April 20, 2017, Nucor Corporation announced consolidated net earnings of $356.9 million, or $1.11 per diluted share, for the first quarter of 2017. On April 25, 2017, AK Steel reported net income of $62.5 million, or $0.19 per

diluted share of common stock, for the first quarter of 2017, compared to a net loss of $13.6 million, or $0.08 per diluted share, for the first quarter of 2016. On April 19, 2017, Steel Dynamics, Inc. reported first quarter 2017 net income of $201 million, or $0.82 per diluted share, with net sales of $2.4 billion.

178. U.S. Steel continues to significantly underperform its competitors.

### M. The Failure of the "Carnegie Way" Results in Defendant Longhi Being Phased Out as CEO

179. On February 28, 2017, U.S. Steel announced that Defendant Burritt had been elected to the positions of President and Chief Operating Officer of the Company, and would assume all responsibility for the day-to-day operations of U.S. Steel in the United States and Central Europe. This announcement signaled the first step in the transition of power from Longhi to Burritt and the Company's abandonment of the botched Carnegie Way initiative.

180. Then, on May 10, 2017, U.S. Steel announced that Defendant Longhi was retiring as CEO, effective immediately, and that Burritt would assume the role in place of Longhi. Conspicuously, Defendant Longhi's retirement came merely two weeks after the Company had announced its dreadful first quarter 2017 results, which reflected deteriorating financial results despite improved market conditions due to the Company's operational challenges.

181. Despite layoffs, plant closures, lack of profit, under-invested facilities and equipment, and a reported net loss for the 2016 fiscal year of $440 million,

Longhi received a $4.35 million bonus for the 2016 fiscal year – his largest bonus ever.

## V. DEFENDANTS' MATERIALLY FALSE AND MISLEADING RELEVANT PERIOD STATEMENTS AND OMISSIONS

182. In order to conceal the Company's true condition from investors throughout the Relevant Period, Defendants issued a series of pervasive and material misstatements and omitted material facts in the Company's public filings, press releases, conference calls, investor presentations and other documents. These material misstatements and omissions created the false impression that U.S. Steel was not experiencing severe unplanned outages and operational issues at its Flat-Rolled facilities, and that the Company was actually investing in and maintaining its facilities. Indeed, Defendants were fully aware in 2015 that U.S. Steel's Flat-Rolled facilities were experiencing increased unplanned outages and other operational challenges that necessitated immediate costly updates and improvements.

183. This false impression caused the Company's stock price to be artificially inflated throughout the Relevant Period and, among other things, facilitated the Individual Defendants' massive insider sales.

184. On January 26, 2016 after the market closed, U.S. Steel issued a press release, entitled *United States Steel Corporation Reports 2015 Fourth Quarter and Full Year Results with Strong Liquidity and Positive Operating Cash Flow Under*

*Challenging Market Conditions*, announcing the Company's fourth quarter 2015 and annual 2015 financial results (the "2015 Press Release"). In the 2015 Press Release, the Company reported an annual net loss and adjusted net loss of $1.5 billion, or $10.32 per diluted share, and $262 million, or $1.79 per diluted share, respectively. U.S. Steel also reported revenue of $11.6 billion, down $5.9 billion from $17.5 billion in 2014.

185. With respect to the Flat-Rolled segment, the Company reported an EBIT loss for 2015 of $237 million, down from positive EBIT in 2014 of $709 million. In explaining the decline in the Company's fourth quarter and annual 2015 financial results for its Flat-Rolled segment, Defendants blamed it all on the "challenging" market conditions causing a "decrease in average realized prices:"

> Fourth quarter results for our Flat-Rolled segment declined as compared to the third quarter primarily due to a decrease in average realized prices. Imported flatrolled products, much of which we believe are dumped and/or subsidized, continued to harm the domestic market, as they did for all of 2015, placing downward pressure on both our spot and our contract prices. Our average realized prices declined during the fourth quarter by approximately $30 per ton, while fourth quarter shipments were comparable to third quarter. Full-year Flat-Rolled segment results for 2015 declined from 2014 driven by lower shipments and average realized prices due primarily to the negative impact of imports, as described above, and high supply chain inventories . . . .

186. In the 2015 Press Release, Defendant Longhi praised the purported benefit of the Carnegie Way initiative, falsely assuring investors that U.S. Steel was experiencing "real" and "significant progress:"

> The ***$815 million of Carnegie Way benefits we realized*** in 2015 show that we continue to make ***significant progress*** on our journey toward our goal of achieving economic profit across the business cycle. ***Our progress is real and it is substantial***, but our fourth quarter and full-year results show that it is not yet enough to fully overcome some of the worst market and business conditions we have seen.

(Emphasis added).

187. Despite the U.S. Steel's undisclosed decision to defer spending on desperately needed maintenance and upgrades to its manufacturing facilities and infrastructure, they applauded the Company's "positive operating cash flow of $359 million for the year ended December 31, 2015," with $755 million in reported cash.

188. Commenting on U.S. Steel's 2016 Outlook, Defendant Longhi assured investors that U.S. Steel was successfully "positioned to respond to improving market conditions" and expected 2016 adjusted EBITDA to "be near breakeven" under current market conditions:

> We have a strong and growing pipeline of Carnegie Way projects that will provide benefits in our operating segments and all other areas of our company. The substantive changes and improvements we are making continue to increase our earnings power. We are working hard every day to serve our customers and are ***well positioned to respond to improving market conditions***.

(Emphasis added).

189. In connection with the January 2016 Press Release, U.S. Steel also provided a Fourth Quarter and Full Year 2015 Earnings Conference Call and

Webcast Presentation (the "2015 Earnings Presentation") and a Fourth Quarter 2015 Questions and Answers Presentation (the "Q4 2015 Q&A Packet") posted on the Company's website.

190. The 2015 Earnings Presentation falsely reported a "realized" Carnegie Way benefit of $815 million, attributing $647 million to the Flat-Rolled Segment.

191. The Q4 2015 Q&A Packet falsely stated that:

- Carnegie Way was "***much more than a cost cutting initiative***, improving all our core business processes, including commercial, manufacturing, supply chain, procurement, innovation, and functional support."

- U.S. Steel had: "***achieved sustainable cost improvements through process efficiencies and our investments in reliability centered maintenance (RCM),*** and we will continue to find process improvements that enable us to better serve our customers and reward our stakeholders."

192. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) the purported "realized" Carnegie Way benefit of $815 million was materially overstated because U.S. Steel recognized purported cost savings for "multiple" projects every week ranging in an estimated value of up to $4-$5 million before the projects were complete or, in some instances, before they were

even implemented; (iii) U.S. Steel was deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iv) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 that "those investments that we need to make are being – we're not able to make them right now," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and the situation was "grave"; (v) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first quarter of 2016; (vi) as a result of (iii) through (v) above, the decrease in sales and shipments was not attributable to market factors but, instead, was Company-specific; (vii) U.S. Steel's purported positive operating cash flow was at the expense of U.S. Steel's decision to defer desperately needed maintenance and capital spending; and, thus (viii) U.S. Steel's business and prospects were far worse than represented.

193. On January 27, 2016, the Individual Defendants held an investor conference call with analysts to discuss the Company's fourth quarter and full year 2015 financial results (the "January 2016 Call"). During the January 2016 Call, Defendant Burritt falsely claimed that U.S. Steel was making investments to achieve its "long-term strategy:"

> [W]e know we are managing our business to maintain a strong cash position and to be prepared to respond quickly when the recovery begins. We said last quarter that we will be disciplined on our capital allocation strategies and decisions and ***will continue*** ***to make the investments that support our long-term strategy*** but we will do so in a manner and at a pace that is appropriate based on our ability to generate cash.

(Emphasis added).

194. According to U.S. Steel, the Company's long-term strategy under the Carnegie Way program was to, among other things, improve the "reliability of our operations."

195. Defendant Burritt further assured investors that U.S. Steel was "deeply focused" on the manufacturing processes and "creating a more reliable and agile operating base that lowers [the Company's] breakeven point and improves [its] ability to adapt quickly to changing market conditions while providing superior quality and delivery performance for [U.S. Steel's] customers."

196. Remarkably, Defendant Longhi stated that the Company was "realizing [operating efficiencies] from higher utilization rates" and that "if you look at the improvements that are being put in place, it's not going to require us to go back to the full volume to deliver even better results." Longhi further stated "[w]e can go to higher utilization rates at our current facilities. We're not required to go back to full volume in order to produce better results."

197. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) U.S. Steel were deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iii) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 that "those investments that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and the situation was "grave"; (iv) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first quarter of 2016; and, thus, (v) U.S. Steel's business and prospects were far worse than represented.

198. On February 29, 2016, U.S. Steel filed its Annual Report on Form 10-K with the SEC for the year-ended December 31, 2015 (the "2015 Form 10-K"), which was signed by defendants Longhi and Burritt.

199. The 2015 Form 10-K contained essentially the same false and misleading statements as the 2015 Press Release. In the 2015 Form 10-K, U.S.

Steel also made material misstatements concerning U.S. Steel's: (1) Carnegie Way benefits and results; (2) declining financial results as being attributable primarily to market factors; and (3) outlook and financial forecasts.

200. Specifically, in the 2015 Form 10-K, U.S. Steel falsely represented with respect to the Carnegie Way initiative that U.S. Steel's "***progress is real and it is substantial***." (Emphasis added).

201. The Company also reported $815 million of purported Carnegie Way benefits realized in 2015.

202. With respect to the substantial decrease in net sales, U.S. Steel blamed it primarily on unfavorable market conditions without any mention of the Company's failure to properly invest and maintain its asset base:

> Decrease in net sales in 2015 is primarily due to decreased shipment volumes and lower average realized prices as a result of challenging market conditions, including high import levels, much of which we believe are unfairly traded, which have served to reduce shipment volumes and drastically depress both spot and contract prices.
>
> * * *
>
> The decrease in sales for the Flat-Rolled segment primarily reflected a decrease in shipments (decrease of 3,313 thousand net tons), which includes the deconsolidation of USSC (represents 1,532 thousand net tons, or 46%, of the total volume decrease) and lower average realized prices (decrease of $77 per net ton) ***as a result of market conditions, including high import levels, which has served to reduce shipment volumes*** and drastically depress both spot and contract prices. . . The decrease in sales for the Tubular segment primarily reflected lower shipments (decrease of 1,151 thousand net tons) as a result of

> decreased drilling activity and continued high import levels and lower average realized prices (decrease of $74 per net ton).

(Emphasis added).

203. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) the purported "realized" Carnegie Way benefit of $815 million was materially overstated because U.S. Steel recognized purported cost savings for "multiple" projects every week ranging in an estimated value of up to $4-$5 million before the projects were complete or, in some instances, before they were even implemented; (iii) U.S. Steel was deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iv) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first quarter of 2016; (v) as a result of (iii) and (iv) above, the decrease in sales and shipments was not attributable to market factors but, instead, was Company-specific; and, thus (vi) U.S. Steel's business and prospects were far worse than represented.

204. In response to the above material misstatements, U.S. Steel's stock price increased 24.5% from $9.12 per share on February 29, 2016 to $11.35 per share on March 2, 2016.

205. On April 26, 2016, U.S. Steel issued a press release, entitled "*United States Steel Corporation Reports 2016 First Quarter Results with Strong Liquidity and Positive Operating Cash Flow Under Challenging Market Conditions*," announcing the Company's first quarter 2016 financial results (the "April 2016 Press Release"). In the April 2016 Press Release, the Company reported a first quarter net loss of $340 million, or $2.32 per diluted share. U.S. Steel's reported revenues decreased by $231 million and $931 million as compared to $2.6 billion in the fourth quarter 2015 and $3.3 billion in the first quarter of 2015, respectively.

206. In particular, for the Flat-Rolled segment, the Company reported an EBIT loss for the first quarter 2016 of $188 million, as compared to an $88 million EBIT loss in the fourth quarter 2015 and $67 EBIT loss for the first quarter 2015. In the accompanying Segment and Financial Operating Data Presentation, U.S. Steel reported tons shipped for the first quarter 2016 of 2,498 thousand as compared to 2,617 thousand tons for the first quarter of 2015 and 2,591 thousand tons for the fourth quarter 2015.

207. Commenting on U.S. Steel's first quarter 2016 results, Defendant Longhi claimed Carnegie Way benefits realized for the first quarter 2016 of $100 million and falsely assured investors:

> We took significant actions to align our overhead costs with our operations, contributing $100 million to our Carnegie Way benefits for this year. We remain focused on reducing our costs, ***improving the quality and reliability of our operations***, and working with our customers to deliver differentiated solutions that will improve our market position and create value for all of our stakeholders. We ***are well-positioned to benefit from currently improving market conditions for our Flat-Rolled*** and European segments.

(Emphasis added).

208. In explaining the decline in the Company's first quarter 2016 results for its Flat Rolled segment, U.S. Steel, again, blamed it primarily on poor market conditions and did not attribute any of the Company's declining sales or inability to take advantage of improving raw material and energy prices to U.S. Steel's outdated and poorly maintained infrastructure that was significantly affecting production:

> First quarter results for our Flat-Rolled segment declined as compared to the fourth quarter primarily due to decreases in average realized prices for our contract business and slightly lower average spot prices compared to the fourth quarter. Seasonally lower results from our mining operations and a $50 million unfavorable effect from planned liquidations of inventory costed using the last-infirst-out (LIFO) method related to our targeted working capital reductions in 2016 contributed to the decline in results in the first quarter. The favorable impacts of lower raw materials and energy prices, lower spending and overhead costs, and increased operating efficiencies from our current operating configuration only partially offset the unfavorable items.

209. Moreover, despite Defendants' undisclosed decision to defer spending on desperately needed maintenance and upgrades to its manufacturing facilities and infrastructure, U.S. Steel highlighted its "positive operating cash flow" of $113 million for the first quarter 2016 with $705 million in reported cash.

210. Commenting on U.S. Steel's 2016 Outlook, Defendant Longhi told investors that "recent increases in prices for flat-rolled products will begin to be reflected in [U.S. Steel's] results in the second quarter" and the Company would "benefit from the improving market conditions."

211. U.S. Steel also increased the Company's 2016 forecast from "breakeven" to "2016 adjusted EBITDA [of] near $400 million" and projected Flat-Rolled segment results to be "higher than" 2015 results.

212. In connection with the April 2016 Press Release, U.S. Steel also provided a First Quarter 2016 Earnings Presentations (the "Q1 2016 Earnings Presentation") and a First Quarter 2016 Questions and Answers Presentation (the "Q1 2016 Q&A Packet") posted on the Company's website.

213. The Q1 2016 Earnings Presentation contained similar false and misleading statements concerning the purported benefits of the Carnegie Way initiative and that the Company was positioned to take advantage of positive changes to market conditions:

- "Including the benefits from projects we implemented during the first quarter, our new total for the ***full year impact from Carnegie Way benefits in 2016*** is $600 million as compared to 2015 as the base year. These benefits resulted from the completion of almost 500 projects in the first quarter. . . particularly in the areas of manufacturing and supply chain, where we have our greatest opportunities for improvement.

- We ***continue to implement our reliability centered maintenance process across all of our facilities. The benefits are starting to be reflected in fewer unplanned outages and lower maintenance costs and are allowing for a more efficient allocation of to be reflected in fewer unplanned outages and lower maintenance costs***, and are allowing for a more efficient allocation of our maintenance labor force."

- "The Company is undertaking "***operating updates***" at "Steelmaking facilities[,] Flat-Rolled finishing facilities[,] . . . Tubular facilities [and] U.S. Steel Europe."

- "The Carnegie Way methodology remains a powerful driver of new value creating projects . . . Our pace of progress on the Carnegie Way transformation continues to exceed our expectations. The continuing benefits are improving our capability to earn the right to grow and then drive sustainable profitable growth over the long-term . . . .

(Emphasis added).

214. Similarly, the Q1 2016 Q&A Packet falsely stated that:

- Carnegie Way was "much more than a cost cutting initiative, improving all our core business processes, including commercial, manufacturing, supply chain, procurement, innovation, and functional support."
- U.S. Steel had "achieved sustainable cost improvements through process efficiencies and our investments in reliability centered maintenance (RCM), and we will continue to find process improvements that enable us to better serve our customers and reward our stakeholders."

215. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) the purported "realized" Carnegie Way benefit of $100 million was materially overstated because U.S. Steel recognized purported cost savings for "multiple" projects every week ranging in an estimated value of up to $4-$5 million before the projects were complete or, in some instances, before they were even implemented; (iii) U.S. Steel was deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iv) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 that "those investments that we need to make are being – we're not able to make them right now," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and the situation was "grave"; (v) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first quarter of 2016; (vi) as a result of (iii) through (v) above, the decrease in sales and shipments was not attributable to market factors but, instead, was Company-specific; (vii) U.S. Steel's purported positive operating cash flow

was at the expense of Defendants' decision to defer desperately needed maintenance and capital spending; and, thus (viii) U.S. Steel's business and prospects were far worse than represented.

216. On this news Macquarie Capital, Inc., downgraded the Company's stock to "Underperform," noting in its April 28, 2016 article that "[w]e expect a stronger [second half of 2016] based on improving pricing, but [X's] volume is not expected to rise much and the high fixed cost base should limit X's ability to meet its EBITDA goal."

217. On April 27, 2016, the Individual Defendants held an investor call to discuss the Company's first quarter 2016 financial results (the "April 2016 Call"). When asked about recent undisclosed unplanned outages, Defendant Burritt minimized the outages stating:

> ***Operations are normal***, they are stable. Europe has concluded a couple of planned maintenance that they needed to do. We had a little bit of an issue, Gary over back, but all furnaces are back and running and the downstream lines are shape. Everything is going okay.

(Emphasis added).

218. Defendant Longhi downplayed the outages, characterizing them as "minor repairs."

219. When asked by analyst Anthony Rizzuto of Cowen & Co. LLC about U.S. Steel's ability to increase shipment volumes to increase market share,

Defendant Burritt assured investors that the Company was ready, willing and able to meet market demands as they increase:

> Q: Tony Rizzuto: You're welcome. Thank you. The shipment volumes, I have a question about that, with your current configuration the flat-rolled segment and imports declining. Do you expect you'll be able to regain some market share?
>
> A: David Burritt: Well, we have been supplying the customers with whatever they needed and we have re-positioned the footprint in order to better acclimate to the current market conditions. But ***we remain also ready to increase our supply and sooner the market from a volume perspective demonstrate some real sustainability***. We are not going to hastily moving to bring in more capacity on line unless you see that there is real sustainable increase in the market demand.

(Emphasis added).

220. The above statements were materially false and misleading when made because: (i) U.S. Steel was deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (ii) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 that "those investments that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and the situation was "grave"; (iii) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first quarter of 2016; (iv) the unplanned outages and increased repairs were the

direct result of the Individual Defendants' decision not to invest in U.S. Steel's infrastructure; and, thus (v) U.S. Steel's business and prospects were far worse than represented.

221. On April 27, 2016, the U.S. Steel filed its quarterly report on Form 10-Q for the period-ended March 31, 2016 (the "First Quarter 2016 Form 10-Q") with the SEC, which was signed by Defendants Longhi and Burritt. The First Quarter 2016 Form 10-Q contained nearly identical false and misleading statements as the April 2016 Press Release and April 2016 Call.

222. In addition, the First Quarter 2016 Form 10-Q, U.S. Steel blamed the decline in results for the Flat-Rolled segment solely to market factors:

> The decrease in Flat-Rolled results for the three months ended March 31, 2016 compared to the same period in 2015 resulted from lower average realized prices (approximately $395 million) as a result of challenging market conditions, including high import levels, which have served to drastically depress both spot and contract prices and lower steel substrate sales to our Tubular segment (approximately $20 million).

223. With respect to the Company's 2016 Outlook, U.S. Steel stated that the Company would achieve adjusted EBITDA of $400 million if market conditions remained the same.

224. The above statements were materially false and misleading when made because: (i) U.S. Steel were deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in

"thousands of tons of missed steel production" of at least 20% of total capacity; (ii) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 that "those investments that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and the situation was "grave"; (iii) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first quarter of 2016; (iv) the unplanned outages and increased repairs were the direct result of the Individual Defendants' decision not to invest in U.S. Steel's infrastructure; and, thus (v) U.S. Steel's business and prospects were far worse than represented.

225. On July 26, 2016, U.S. Steel issued a press release, entitled "*United States Steel Corporation Reports Improved Second Quarter Results and Stronger Cash and Liquidity Position*," announcing the Company's second quarter 2016 financial results (the "July 2016 Press Release"). In the July 2016 Press Release, the Company reported essentially flat sales with a negligible increase of $243 million for the second quarter 2016 as compared to the first quarter 2016 and a decrease of $316 million as compared to the same quarter of 2015.

226. U.S. Steel reported EBIT for the Flat-Rolled segment of just $6 million for the second quarter 2016. In the accompanying Segment and Financial

Operating Data Presentation, U.S. Steel reported tons shipped for the second quarter 2016 of 2,692 thousand as compared to 2,712 thousand tons in the second quarter of 2015.

227. Despite the Individual Defendants' undisclosed decision to defer spending on desperately needed maintenance and upgrades to its manufacturing facilities and infrastructure, U.S. Steel highlighted its "positive operating cash flow" of $313 million for the six months ended June 30, 2016 with $820 million in reported cash.

228. Commenting on U.S. Steel's 2016 Outlook, Defendant Longhi assured investors that U.S. Steel's financial performance would continue to improve as a result of Carnegie Way benefits, which had paved the way for the Company to take advantage of improving market conditions:

> The ***significant improvements we have made to our earnings power through our Carnegie Way transformation will become more apparent as market prices recover*** from the very low levels at the end of 2015. While we began to realize some benefit from recent price increases in the second quarter, we will see better average realized prices, primarily in our Flat-Rolled and European segments, in the second half of the year. . . ***Our Carnegie Way journey continues to create improvements in our business model that will enable us to be profitable*** across the business cycle

(Emphasis added).

229. U.S. Steel also increased the Company's 2016 forecast from "2016 adjusted EBITDA [of] near $400 million" to adjusted EBITDA of $850 million and net earnings to $50 million, or $0.34 per share, and reaffirmed that the Flat-

Rolled segment results would be "higher than" 2015 results. The Individual Defendants further promised investors that the Company would be "cash positive for the year, including approximately $400 million of cash benefits from working capital improvements in 2016, ***primarily related to better inventory management, driven by improved sales and operations planning practices***, helping to offset growing accounts receivables balances." (Emphasis added).

230. In conjunction with the July 2016 Press Release, U.S. Steel provided a Second Quarter 2016 Earnings Presentation (the "Q2 2016 Earnings Presentation") and a Second Quarter 2016 Questions and Answers Presentation (the "Q2 2016 Q&A Packet") posted on the Company's website.

231. The Q2 2016 Earnings Presentation reported purported realized Carnegie Way benefits of $115 million and falsely claimed U.S. Steel was implementing its RCM Carnegie Way initiative and observing "fewer unplanned outages:"

- Including the benefits from projects we implemented during the second quarter, our new total for the full year impact from Carnegie Way benefits in 2016 is $645 million as compared to 2015 as the base year. These benefits resulted from the completion of almost 400 projects in the second quarter . . . particularly in the areas of manufacturing and supply chain, where we have our greatest opportunities for improvement.

- "We ***continue to implement our reliability centered maintenance process across all of our facilities***. We are ***starting to see the benefits as we have experienced fewer unplanned outages and lower***

***maintenance costs***, and are allowing for a more efficient allocation of our maintenance labor force."

- "The Carnegie Way methodology remains a powerful driver of new value creating projects. . . ."

(Emphasis added).

232. Similarly, the Q2 2016 Q&A Packet contained the following material misstatements:

> [The Carnegie Way] is much more than a cost cutting initiative, improving all our core business processes, including commercial, manufacturing, supply chain, procurement, innovation, and functional support. Carnegie Way is our culture and the way we run the business. . . We ***have achieved sustainable cost improvements through process efficiencies and our investments in reliability centered maintenance (RCM)***, and we will continue to find process improvements that enable us to better serve our customers and reward our stakeholders.

(Emphasis added).

233. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) the purported "realized" Carnegie Way benefit of $115 million was materially overstated because U.S. Steel recognized purported cost savings for "multiple" projects every week ranging in an estimated value of up to $4-$5 million before the projects were complete or, in some instances, before they were even implemented; (iii) U.S. Steel were deferring badly needed maintenance and

facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iv) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 and May 24, 2016 that "those investments that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and operating margins "are nowhere near where they need to be for us to invest in our future;" (v) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first and second quarters of 2016; (vi) as a result of (iii) through (v) above, the decrease in sales and shipments was not attributable to market factors but, instead, was Company-specific; (vii) U.S. Steel's purported positive operating cash flow was at the expense of Defendants' decision to defer desperately needed maintenance and capital spending; and, thus (viii) U.S. Steel's business and prospects were far worse than represented.

234. On July 27, 2016, U.S. Steel held a conference call with analysts to discuss the Company's second quarter 2016 financial results (the "July 2016 Call"). Despite reporting a net loss of $46 million, or $0.32 per share, Defendant Longhi claimed U.S. Steel was successfully implementing the Carnegie Way, which had "greatly enhanced [the Company's] earnings power" and, thus, U.S.

Steel was "***well-positioned to deliver strong results under current market conditions***." (Emphasis added).

235. When asked by analyst David Gagliano of BMO Capital Markets about the Company's "volume expectations over the next couple of quarters," Defendant Longhi assured investors that U.S. Steel was making investments in its assets and growing:

> Well, we do have certainly several projects that we're contemplating going forward. But we haven't quite stopped doing it. ***There are so many investments that we're making***, that are making us so much better, and there's still opportunity for improvement within what we have. ***So, the opportunity for growth is real, it is happening***. And what we are considering, it's really more value rather than just volume. And you're seeing that, as I referred to my initial remarks here, we continue to evolve into that chain. We're doing well, and that's sort of an important feature as we think about how we go forward.

(Emphasis added).

236. In response to a question from analyst Michael F. Gambardella of JPMorgan Securities LLC during the July 2016 Call about whether U.S. Steel had a sufficient supply of hotrolled steel if needed, Defendant Longhi responded "***we certainly are capable of supplying – we still have capacity available. So, the answer would be, yes, I mean, we're still ready to support the market.***" (Emphasis added).

237. Finally, when asked by analyst Jorge M. Beristain of Deutsche Bank Securities about maintenance and outages in the flat-rolled segment in the second

quarter, Defendant Lesnak minimized the outages claiming they were "not . . . material."

> **Jorge M. Beristain - Deutsche Bank Securities, Inc.**
> Hey, guys. Good morning and congrats on the results. My question just is, what were specifically the maintenance and outage costs in the second quarter for FlatRolled?
>
> **Dan Lesnak - General Manager-Investor Relations**
> All right. So we would just point out they were higher in the prior, but **they were not – we'd say material**. They were not – it was a normal planned blast furnace outage that we had. It wasn't a reline; so was the maintenance outage. So, I mean, it's just a change quarter-over-quarter, but it's starting on an unusual spend for us. It's just really – you can't really smooth it out across the quarter. It just gets lumpy. That's why we tend to call it out when there's a change quarter-to-quarter.

(Emphasis added).

238. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) U.S. Steel were deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iii) U.S. Steel was no making "so many" investments, it was making no investments; (iv) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 and May 24, 2016 that "those investments

that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and operating margins "are nowhere near where they need to be for us to invest in our future;" (v) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first and second quarters of 2016; (vi) as a result of (ii) through (v) above, U.S. Steel's was not "well-positioned to deliver strong results under current market conditions because the Company lacked the capacity to meet market demand due to underinvesting and failing to maintain its facilities.

239. On July 27, 2016, U.S. Steel filed its quarterly report on Form 10-Q for the period-ended June 30, 2016 (the "Second Quarter 2016 Form 10-Q") with the SEC, which was signed by Defendants Longhi and Burritt. The Second Quarter 2016 Form 10-Q contained nearly identical false and misleading statements as the July 2016 Press Release and July 2016 Call.

240. Specifically, in the Second Quarter 2016 Form 10-Q, U.S. Steel blamed the decline in results for the Flat-Rolled segment primarily to market factors:

> The decrease in sales for the Flat-Rolled segment primarily reflected lower average realized prices (decrease of $53 per net ton) due to lower average contract prices year over year on both fixed price and quarterly adjustable contracts, that do not yet reflect the recent price increases resulting from the more balanced supply and demand relationship in the North American flat-rolled market.

241. With respect to the Company's 2016 Outlook, Defendants stated that U.S. Steel would achieve net earnings of $50 million, or $0.34 per share, and adjusted EBITDA of $850 million if market conditions remained the same.

242. The above statements were materially false and misleading when made because: (i) U.S. Steel was deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (ii) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 that "those investments that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and the situation was "grave"; (iii) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first and second quarters of 2016; (iv) the unplanned outages and increased repairs were the direct result of the Individual Defendants' decision not to invest in U.S. Steel's infrastructure; and, thus (v) U.S. Steel's business and prospects were far worse than represented.

243. In response to the above material misstatements, U.S. Steel's stock price increased 29% from $21.31 per share on July 25, 2016 to $27.49 per share on July 29, 2016.

244. On August 8, 2016, U.S. Steel issued a press release entitled "*United States Steel Corporation Announces Proposed Common Stock Offering*," announcing that the Company had commenced an underwritten public offering of 17 million shares of common stock, which granted the underwriters a 30-day option to purchase up to 2,550,000 additional shares.

245. According to the release, U.S. Steel "intends to use the net proceeds from the offering for financial flexibility, capital expenditures and other general corporate purposes."

246. The above statement was materially false and misleading when made because: (i) U.S. Steel were deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; and (ii) as Defendants would later admit in April 2017, "[w]e issued equity last August to give us the financial strength and liquidity ***to position us to establish an asset revitalization plan large enough to resolve our issues***, and to see that plan through to completion." (Emphasis added). In other words, Defendants' were admittedly aware back in August 2016 that U.S. Steel would need to undertake a "large," multi-year "asset revitalization" in order to fix the Company's problems, yet failed to disclose these facts.

247. On August 8, 2016 Defendants announced a Secondary Public Offering of 17,000,000 shares of common stock and filed a preliminary prospectus supplement (the "SPO Prospectus") and an accompanying prospectus pursuant to the Securities Act of 1933, as amended.

248. The SPO Prospectus incorporated by reference all of the statements contained in the 2015 Form 10-K, the Q1 2016 Earnings Presentation, the First Quarter 2016 Form 10-Q, the Q2 2016 Earnings Presentation, and the Second Quarter 2016 Form 10-Q, as follows:

> The SEC allows us to 'incorporate by reference' into this prospectus supplement the information in documents we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement, and later information that we file with the SEC will update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 . . .:
>
> (a) Annual Report on Form 10-K for the year ended December 31, 2015;
>
> (b) Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016;
>
> (c) Current Reports on Form 8-K filed on April 26, 2016 (solely with respect to Items 8.01 and 9.01 thereof), . . . July 26, 2016 (solely with respect to Items 8.01 and 9.01 thereof) . . . .

249. Accordingly, by incorporating such statements by reference, and therefore, making such statements a part of the SPO Prospectus, the SPO

Prospectus was materially false and misleading in the same manner and for the same reasons as all of the statements enumerated above.

250. On August 11, 2016 the Company announced that it was expanding the size of the Secondary Public Offering to 18,900,000 shares of common stock and filed a preliminary prospectus supplement (the "Expanded SPO Prospectus") and an accompanying prospectus pursuant to the Securities Act of 1933, as amended.

251. The Expanded SPO Prospectus incorporated by reference all of the statements contained in the 2015 Form 10-K, the Q1 2016 Earnings Presentation, the First Quarter 2016 Form 10-Q, the Q2 2016 Earnings Presentation, and the Second Quarter 2016 Form 10-Q, as follows:

> "The SEC allows us to 'incorporate by reference' into this prospectus supplement the information in documents we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement, and later information that we file with the SEC will update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 . . .: (d) Annual Report on Form 10-K for the year ended December 31, 2015; (e) Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016; (f) Current Reports on Form 8-K filed on April 26, 2016 (solely with respect to Items 8.01 and 9.01 thereof), . . . July 26, 2016 (solely with respect to Items 8.01 and 9.01 thereof) . . . ."

252. Accordingly, by incorporating such statements by reference, and therefore, making such statements a part of the Expanded SPO Prospectus, the Expanded SPO Prospectus was materially false and misleading in the same manner and for the same reasons as all of the statements enumerated above.

253. On November 1, 2016, U.S. Steel issued a press release, entitled "*United States Steel Corporation Reports Best Quarterly Results Since 2014*," announcing the Company's third quarter 2016 financial results (the "November 2016 Press Release"). In the November 2016 Press Release, the Company, again, reported essentially flat sales of $2.7 billion for the third quarter 2016 as compared to $2.6 billion in the second quarter 2016 and a decrease of $144 million as compared to the same quarter of 2015.

254. Defendants reported EBIT for the Flat-Rolled segment of $114 million as compared to $6 million for the second quarter of 2016 and an EBIT loss of $18 million for the third quarter of 2015. In the accompanying segment presentation, Defendants reported total shipments for the third quarter 2016 of 2,535 thousand tons as compared to 2,692 thousand tons in second quarter of 2016 and 2,676 thousand tons in the third quarter of 2015.

255. In the November 2016 Press Release, Defendant Longhi touted the Company's results as having improved "significantly" from the second quarter,

minimized the unplanned outages that occurred in the third quarter, and falsely claimed that U.S. Steel and been investing in its assets all along stating:

> Our third quarter results improved significantly from the second quarter as each of our segments improved, resulting in our highest quarterly segment income since the fourth quarter of 2014. ***We faced some operational challenges that limited our ability to realize the full benefits of an improved pricing environment, but we continued to make progress in our Carnegie Way transformation efforts. With our very strong cash and liquidity position, we remain focused on the investments that we need to <u>continue</u> to make*** to revitalize our facilities and deliver value-enhancing solutions for our customers.

(Emphasis added).

256. Despite the unplanned outages in the Flat-Rolled Segment, U.S. Steel claimed results for that segment had "improved'

> Third quarter results for our Flat-Rolled segment ***improved*** from the second quarter as both spot and contract prices increased, and benefits from an improving product mix and our Carnegie Way initiatives continued to grow. ***Operational issues adversely impacted shipments from our Flat-Rolled facilities. In the last half of the third quarter, we experienced unplanned outages at several of our steelmaking and finishing facilities. Our third quarter shipments were negatively impacted by approximately 125,000 tons as a result of unplanned outages***, as our streamlined plant operating configuration extends the time it takes to recover volumes from unplanned outages. A planned outage and lower operating rates at our mining operations also negatively impacted our results.

(Emphasis added).

257. Moreover, despite the Individual Defendants' undisclosed decision to defer spending on desperately needed maintenance and upgrades to its manufacturing facilities and infrastructure, U.S. Steel applauded its "positive

operating cash flow" of $577 million for the nine months ended September 30, 2016 with $1.4 billion in reported cash.

258. With respect to the 2016 outlook, while U.S. Steel reduced U.S. Steel's guidance for 2016 to a net loss of $355 million and adjusted EBITDA of $475 million, down from the previous adjusted EBITDA guidance of $850 million, Defendant Longhi falsely assured investors:

259. U.S. Steel, however, made no mention of the fact that the FlatRolled Segment facilities required far more extensive and expensive repairs, upgrades and maintenance than Defendants disclosed.

260. In connection with the November 2016 Press Release, U.S. Steel also provided a Third Quarter 2016 Earnings Presentation (the "Q3 2016 Earnings Presentation") and a Third Quarter 2016 Questions and Answers Presentation (the "Q3 2016 Q&A Packet") posted on the Company's website.

261. The Q3 2016 Earnings Presentation falsely reported $60 million in purported realized Carnegie Way benefits and claimed that:

- Including the benefits from projects we implemented during the third quarter, our new total for the ***full year impact from Carnegie Way benefits in 2016 is $705 million*** as compared to 2015 as the base year. These benefits resulted from the ***completion of 370 projects in the third quarter*** . . . particularly in the areas of manufacturing and supply chain, where we have our greatest opportunities for improvement.

- "***We are continuing to implement RCM at all of our facilities and have seen the benefits of improved maintenance capabilities*** raise our facilities up to higher performance standards. While RCM

improves maintenance efficiency, the revitalization of our assets will increase our production."

(Emphasis added).

262. Similarly, the Q3 2016 Q&A Packet falsely stated that

- Carnegie Way was "much more than a cost cutting initiative, improving all our core business processes, including commercial, manufacturing, supply chain, procurement, innovation, and functional support."

- U.S. Steel had "achieved sustainable cost improvements through process efficiencies ***and our investments in reliability centered maintenance (RCM),*** and we will continue to find process improvements that enable us to better serve our customers and reward our stakeholders."

(Emphasis added).

263. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) the purported "realized" Carnegie Way benefit of $60 million in the third quarter 2016 and $705 million year-to-date were materially overstated because U.S. Steel recognized purported cost savings for "multiple" projects every week ranging in an estimated value of up to $4-$5 million before the projects were complete or, in some instances, before they were even implemented; (iii) U.S. Steel were deferring badly needed maintenance and facility upgrades, rather than

investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iv) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 and May 24, 2016 that "those investments that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and operating margins "are nowhere near where they need to be for us to invest in our future;" (v) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs in late 2015 and the first three quarters of 2016; (vi) as a result of (iii) through (v) above, the decrease in sales and shipments was not attributable to market factors but, instead, was Company-specific; (vii) the "additional capital investment" was the culmination of years' worth of cost-cutting and insufficient or non-existent capital investment and maintenance and, thus, U.S. Steel's assets and infrastructure were in far worse condition than disclosed; (viii) U.S. Steel's purported positive operating cash flow was at the expense of Defendants' decision to defer desperately needed maintenance and capital spending; and, thus (ix) U.S. Steel's business and prospects were far worse than represented.

264. On November 2, 2016, the Individual Defendants held a conference call with analysts to discuss the Company's third quarter 2016 financial results (the

"November 2016 Call"). In his opening remarks on the November 2016 Call, Defendant Longhi referred to the acceleration of investments in the Company's manufacturing facilities in order to improve operating and reliability – initiatives that Defendants had previously claimed the Company was already doing:

> We continue to make significant progress on improving our business model, lowering our breakeven point, improving our already industry-leading safety performance, and strengthening our balance sheet. We have faced and continue to face many challenges, some at the Company level and some at the industry level. At the Company level, we have streamlined our operating configuration, including the temporary idling of facilities to create greater production efficiencies under today's market conditions and have made many hard decisions to permanently address unprofitable businesses and facilities with a final resolution of our former operations.
>
> *  *  *
>
> ***We are accelerating our investments in our facilities to achieve sustainability better and more consistent operating performance including improved reliability, quality, delivery, and customer service***. Innovation in both products and processes is the foundation for our future success.

(Emphasis added).

265. When asked for more detail about the nature of the unplanned outage that occurred in the third quarter of 2016, Defendant Longhi, again, minimized the impact of the outages and falsely claimed that conditions had actually "improved:"

> Anthony B. Rizzuto - Cowen and Company, LLC
>
> Hey, Mario. Can you provide more color on the nature of the unplanned outages and the operational headwinds that you face? And specifically, for one question just part of it, the facilities and the equipment that was affected directly in the quarter?

Mario Longhi Filho - United States Steel Corp.

There was not any single major event that impacted the output, Tony. It was a convergence of several things that happened in sequence. And in an operation like ours with the improved streamlined footprint that we have, when you have a half a day of an issue here, another half a day of an issue there, and it begins to compound, and it makes it more difficult with the absence of slacking the system to be able to recover more quickly. That is the nature of what happened.

266. When pressed about whether U.S. Steel had been under-investing in its facilities, Longhi flatly denied that U.S. Steel had under-invested and affirmatively claimed, instead, that the Company had "***been investing appropriately***:"

Anthony B. Rizzuto - Cowen and Company, LLC

Okay. And when you talk about the need for revitalization, obviously, this has been a transformation process, a journey as you have referred to Carnegie Way. As you're going through this process, are you finding now that maybe you've under-spent on the capital side and is this something that's coming? I mean just by looking at the language you used in the release, it seemed that way to us. And I just want to make sure – what – if that's the case, what kind of magnitude of capital spending might we see that gravitate towards from the roughly $350 million that you've kind of targeted? Is this – could you just delve into that a little bit for us?

Mario Longhi Filho - United States Steel Corp.

Sure, first and foremost, thanks for describing the nature of what we're doing here as a journey, because it truly is. And ***I would offer that, no, we have not been under-spending***. What we've been doing is, we've only been able to accomplish what we've accomplished and gotten to the position that we are, because ***we've been investing appropriately in making sure that everything that we know is being***

> ***addressed and moving to minimize the conditions that we experienced in the past quarter, which is unplanned events***. So we've been able to get to this point, because ***we've been doing all of the right things***.

(Emphasis added).

267. In response to a question from analyst Evan Kurtz of Morgan Stanley about U.S. Steel's plans for an electric arc furnace (EAF), Longhi assured investors that the Company regularly updates its capex analysis and blamed the delay of putting in an EAF entirely on the market:

> Evan L. Kurtz - Morgan Stanley & Co. LLC
>
> So I have a similar question just about next year's capital spend. I know you had talked before in the past about maybe doing some EAF work at some of the other facilities outside of Fairfield, and I'm wondering – some of these furnaces and some of the equipment that you have is a little bit older at some of the other plants. Is something that you're evaluating now, some sort of an EAF solution that maybe would replace some of the older technology that you might have in place? Is that something that we could see for next year?
>
> Mario Longhi Filho - United States Steel Corp.
>
> Well, ***the analysis has been updated on a regular basis***, and I would go back to when we started this, which led us to make the decision on the first EAF. It's just unfortunately that we faced this terrible energy market, and we were forced into a position of stalling it for a little bit.

(Emphasis added).

268. With respect to the unplanned outages in the third quarter of 2016, Defendant Lesnak claimed that, although "[m]aintenance was up quarter-over-quarter," the decrease in production was mainly related to "the volume and the

operating efficiency" and assured investors that U.S. Steel would "make some better improvements to the facilities" in the fourth quarter of 2016.

269. A November 2, 2016 American Metal Market article discussed Defendant Lesnak criticizing the notion that U.S. Steel might be spending less on maintenance this year than it had in the past and quoted Lesnak as stating "we have a lot less facilities than we did last year. So, . . . if you think of maintenance on a per ton of capacity that's running, we're actually spending more on the facilities this year than we did last year."[18]

270. During the November 2016 Call, Defendant Longhi confirmed that U.S. Steel had realized "very significant levels of improvement" from the Carnegie Way program, while downplaying any operational issues:

> Mario Longhi Filho - United States Steel Corp.
>
> Well, we've had a quarter where some of the efforts had to be diverted a little bit to make sure we addressed the unforeseen challenges that came our way. But in spite of that, we still – I think we ended the quarter with more than 300 new initiatives being completed. And I think going into the next quarter, there are probably another 500 slated to be pursued. So in the pipeline it's even much greater than that. So I wouldn't focus so much on the actual dollars that you saw coming out of this quarter. I think there is more to come. Eventually, these things will begin to taper off, as we get closer to the point of – that we can achieve an incredibly higher level of competitive base from a cost perspective and that is the ultimate goal of what we're relentlessly pursuing.

---

[18] Michael Cowden, USS Flat-Rolled Outages to Persist In 4th Qtr., AMERICAN METAL MARKET (Nov. 2, 2016).

> ***On the other hand, the Carnegie Way also encompasses very significant levels of improvement***. On the overall value chain, you look at the amount of cash that we've been able to generate both from operations as well as the value chain and the logistics side of things. We're talking here about some different types of innovations and we just mentioned a couple of them here on packaging and automotive. So this whole context is what the Carnegie Way encompasses. It's not just the cost and I think we're going to continue to show interesting results in both fronts.

(Emphasis added).

271. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) U.S. Steel were deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iii) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 and May 24, 2016 that "those investments that we need to make are being – we're not able to make them right now," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and operating margins "are nowhere near where they need to be for us to invest in our future;" (iv) the accelerated asset revitalization was, actually, the culmination of years' worth of cost-cutting and insufficient or non-existent capital investment and maintenance and, thus, U.S. Steel's assets and infrastructure were

in far worse condition than disclosed; (v) as a result of the above, U.S. Steel had not "been doing all the right things" and, was "under-spending" for years; thus (vi) U.S. Steel's business and prospects were far worse than represented.

272. On November 2, 2016, U.S. Steel filed its quarterly report on Form 10-Q for the period-ended September 30, 2016 (the "Third Quarter 2016 Form 10-Q") with the SEC, which was signed by Defendants Longhi and Burritt. The Third Quarter 2016 Form 10-Q contained nearly identical false and misleading statements as the November 2016 Press Release and November 2016 Call. The Third Quarter 2016 Form 10-Q also stated in relevant part:

> Net sales were $2,686 million in the three months ended September 30, 2016, compared with $2,830 million in the same period last year. ***The decrease in sales for the Flat-Rolled segment primarily reflected decreased shipments (decrease of 141 thousand net tons) due to operational issues across our Flat-Rolled facilities. In the last half of the third quarter of 2016 we experienced unplanned outages at several of our steelmaking and finishing facilities*** and our current operating configuration in 2016 extends the time it takes to recover volumes from unplanned outages. Additionally, sales in our Flat-Rolled segment decreased due to reduced coke and iron ore pellet sales to U. S. Steel Canada Inc. These decreases were partially offset by higher average realized prices (increase of $44 per net ton) due to improved spot market prices.

(Emphasis added).

273. With respect to the Company's 2016 Outlook, U.S. Steel stated that the Company would achieve a net loss of $355 million, or $2.26 per share, and adjusted EBITDA of $475 million if market conditions remained the same.

274. The above statements were materially false and misleading when made because: (i) U.S. Steel were deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (ii) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 and May 24, 2016 that "those investments that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and operating margins "are nowhere near where they need to be for us to invest in our future;" (iii) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs; and, thus, (iv) U.S. Steel's business and prospects were far worse than represented.

275. In response to the above material misstatements, U.S. Steel's stock price increased $2.04 per share, or 11.4% from $17.82 per share on November 2, 2016 to $19.86 per share on November 4, 2016.

276. On January 31, 2017, U.S. Steel issued a press release, entitled "*United States Steel Corporation Reports Improved 2016 Results with Operating Cash Flow and Stronger Cash and Liquidity*," announcing the Company's fourth quarter and full year 2016 financial results (the "January 2017 Press Release"). In the January 2017 Press Release, the Company reported an annual and quarterly net

loss of $440 million, or $2.32 per diluted share, and $105 million, or $0.61 per diluted share, respectively. U.S. Steel's reported revenues decreased by $1.3 billion from $11.6 billion in 2015 to $10.3 billion in 2016.

277. The Company also reported a fourth quarter 2016 decrease in EBIT for the Flat Rolled Segment of $65 million as compared to EBIT of $114 million for the third quarter 2016. In the accompanying Segment and Financial Operating Data Presentation, U.S. Steel reported steel shipments of 2,369 thousand tons as compared to 2,535 thousand tons in the third quarter 2016 and 2,591 thousand tons in the fourth quarter 2015.

278. In addition, U.S. Steel reported Carnegie Way benefits realized of $745 million for 2016, as compared to $815 million in 2015.

279. Commenting on the decline in the Company's financial performance, Defendant Longhi blamed "very challenging market conditions," resulting in lower prices and shipments and assured investors that U.S. Steel was poised to benefit from improved market conditions and its Carnegie Way transformation efforts:

> We entered 2016 facing very challenging market conditions, but remained focused on our Carnegie Way transformation efforts. Despite lower average realized prices and shipments in 2016, our results are better as we continued to improve our product mix and cost structure. Our focus on cash, including better working capital management and opportunistic capital markets transactions, resulted in an improved debt maturity profile and stronger cash and liquidity. We are well positioned to accelerate the revitalization of our assets to improve our operating reliability and efficiency, and deliver value-enhancing solutions to our customers.

*  *  *

> We are starting 2017 with much better market conditions than we faced at the beginning of 2016. ***Our Carnegie Way transformation efforts over the last three years have improved our cost structure***, streamlined our operating footprint and increased our customer focus. These substantive changes and improvements have ***increased our earnings power***. While we will benefit from improved market conditions, they continue to be volatile and we must remain focused on improving our assets and operating performance, and driving innovation that creates differentiated solutions for our customers remain our top priorities

(Emphasis added).

280. With respect to the Flat-Rolled segment, U.S. Steel blamed continued worsening results on lower prices, fewer shipments and an increase in "planned" outages spending, yet failed to make any mention of the numerous, costly ***unplanned*** outages that resulted from U.S. Steel's failure to properly invest in its facilities:

> Fourth quarter results for our Flat-Rolled segment declined as compared with the third quarter primarily due to a decrease in average realized prices, fewer shipments, as well as increased outage spending. Planned outages as part of our previously announced asset revitalization process limited the amount of tons we could ship in the quarter. Full-year Flat-Rolled segment results for 2016 improved from 2015 largely due to lower raw material costs, lower spending, and benefits provided by our Carnegie Way efforts. These improvements were partially offset by lower average realized prices and shipments.

281. In the January 2017 Press Release, Defendant Longhi also falsely assured investors that U.S. Steel was "***well positioned*** to accelerate the revitalization of [the Company's] assets to improve [its] operating reliability and

efficiency, and deliver value-enhancing solutions to our customers." (Emphasis added).

282. U.S. Steel further highlighted its "positive operating cash flow of $727 million for the year ended December 31, 2016" with $1.5 billion in reported cash.

283. U.S. Steel also projected 2017 net earnings of $535 million, or $3.08 per share, EBITDA of $1.3 billion and results from the Flat-Rolled segment to be "higher than 2016."

284. In a Fourth Quarter and Full-Year 2016 Earnings Presentation (the "Q4 Earnings Presentation"), U.S. Steel reported $745 million of "realized" Carnegie Way benefits." The Q4 Earnings Presentation also falsely represented:

> Our pace of progress on The Carnegie Way transformation continues to exceed our expectations. The ***continuing benefits are improving our ability to earn the right to grow and then drive sustainable profitable growth over*** the long-term as we deal with the cyclicality and volatility of the global steel industry. With over long 4,000 active projects, we have many opportunities ahead of us.

(Emphasis added).

285. Similarly, the Q4 2016 Q&A Packet falsely stated that:

- Carnegie Way "is ***much more than a cost cutting initiative***, improving all our core business processes, including commercial, manufacturing, supply chain, procurement, innovation, and functional support.

- U.S. Steel had "achieved sustainable cost improvements through process efficiencies and ***our investments in reliability***

> ***centered maintenance (RCM)***, and we will continue to find process improvements that enable us to better serve our customers and reward our stakeholders."

(Emphasis added).

286. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) the purported "realized" Carnegie Way benefit of $745 million was materially overstated because U.S. Steel recognized purported cost savings for "multiple" projects every week ranging in an estimated value of up to $4-$5 million before the projects were complete or, in some instances, before they were even implemented; (iii) U.S. Steel were deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iv) Defendant Longhi and other Company executives testified under oath before the ITC on August 18, 2015 and May 24, 2016 that "those investments that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and operating margins "are nowhere near where they need to be for us to invest in our future;" (v) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs; (vi) as a

result of (iii) through (v) above, the decrease in sales and shipments was not attributable to market factors but, instead, was Company-specific; (vii) U.S. Steel's purported positive operating cash flow was at the expense of Defendants' decision to defer desperately needed maintenance and capital spending; and, thus (viii) U.S. Steel's business and prospects were far worse than represented.

287. On February 1, 2017, the Individual Defendants held a conference call with analysts to discuss the Company's third quarter 2016 financial results (the "February 2017 Call"). In his opening remarks, Defendant Longhi continued to hype the progress and positive impact of the Carnegie Way program:

> We have now completed the third year of our transformation and our progress continues to exceed our expectations. The hard and competent work of the Carnegie Way transformation is translating into stronger financial results and better performance for our investors, customers and employees.
>
> As we have demonstrated over the last couple of years, we have a robust process in place that has consistently generated benefits even during times of difficult market conditions.

288. Longhi also reiterated his prior false assurances that U.S. Steel had been properly investing in its assets, despite contradictory testimony before the U.S. International Trade Commission, among other evidence discussed above:

> We have given you regular updates on the significant progress we have made on improving our cost structure. And our increased focus on our customers through our commercial entities, which has resulted in the continuing improvement and our value added product mix. ***We have also been investing in our facilities***, and as we indicated last

> quarter, increasing both the pace and magnitude of our efforts in this area is a priority for this year.
>
> ***These substantive changes and improvements have increased our earnings power and while we will benefit from improved market conditions*** they continue to be volatile, and we must remain focused on improving the things that we can control. As I mentioned earlier, accelerating our efforts to revitalize our assets is a priority for 2017. . . We face structured and flexible plans based on the completion of a large number of smaller and less complex projects to reduce execution risk, and it is ***adaptable in both its scale and the pace of its implementation to changing business conditions***.
>
> We will be implementing this plan over the next 3 to 4 years in order to minimize disruptions to our operations and to ensure we continue to support our customers throughout this process. Our asset revitalization plan is not just sustaining capital and maintenance spending. These projects will deliver both operational and commercial benefits.

(Emphasis added).

289. Longhi also began to concede that U.S. Steel had not been properly investing in its facilities and needed the asset revitalization to "improve[] reliability:"

> After we complete our asset revitalization plan we ***will have well-maintained facilities*** with a strong core infrastructure, strong reliability centered maintenance organizations and we will deliver products to our customers ***with improved reliability and quality***. Executing this plan is a critical milestone in the Carnegie Way journey to take us from earning the right to grow to driving and sustaining profitable growth.

(Emphasis added).

290. When asked by analyst Timna Tanners of Bank of America about the volume of steel the Company would produce from its Flat-Rolled segment in 2017,

Defendant Longhi stated that U.S. Steel was already positioned to supply "whatever additional" steel needed:

> Timna Tanners
>
> [W]hat kind of volume might we expect into 2017, where can you flex from 2016 levels that at least started out pretty strong if we have a decent demand environment into your imports in 2017?
>
> Mario Longhi Filho
>
> Well, our blast furnace capacity is going to be capable of supplying whatever additional alternatives that we're going to find out there Timna. So, from blast furnace capacity, we're not anticipating bringing any of that online. What we do anticipate is to being more reliable than we were, so that we can benefit from being able to roll more of that.

291. When asked by another analyst about the Company's potential capital projects, Longhi maintained that U.S. Steel had, all along, been adequately investing in its facilities:

292. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company money; (ii) U.S. Steel were deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity; (iii) Defendant Longhi and other Company executives testified under oath before

the ITC on August 18, 2015 and May 24, 2016 that "those investments that we need to make are being – ***we're not able to make them right now***," that "subject imports deprived U.S. Steel" of "an opportunity to grow its business to reinvest in technology," and operating margins "are nowhere near where they need to be for us to invest in our future;" (iv) U.S. Steel was experiencing unplanned outages "quarter after quarter" in several of its facilities, as well as costly repairs; and, thus (v) U.S. Steel's business and prospects were far worse than represented..

293. In response to the above material misstatements, U.S. Steel's stock price increased 11.2% from a closing stock price of $31.33 per share on February 1, 2017 to $34.85 per share on February 2, 2017.

294. On these results, analysts noted the gulf between U.S. Steel and its competitors. Specifically, on February 6, 2017, Barclays reported that "[i]n simple terms, we see [Nucor Corporation] as better positioned to drive additional growth while X must now turn its focus to the recapitalization of its existing asset base: We've written on this theme before – NUE has been aggressive in acquiring businesses . . . that expand its product and geographical diversity. . . ."

295. On February 28, 2017, the Company filed its Annual Report on Form 10-K for the year-ended December 31, 2016 with the SEC (the "2016 Form 10-K"), which was signed by Defendants Longhi and Burritt.

296. In the 2016 Form 10-K, Defendants made material misstatements concerning U.S. Steel's: (1) Carnegie Way benefits and results; (2) U.S. Steel's financial results; and (3) outlook and financial forecasts.

297. Specifically, in the 2016 Form 10-K, Defendants falsely represented that, as a result of the Carnegie Way initiative, U.S. Steel was able to withstand negative market factors and, thus, was positioned to take advantage of favorable market conditions:

> Carnegie Way has already driven a shift in the Company that ***has enabled us to withstand the prolonged downturn in steel prices while positioning us for success in a market recovery.***

(Emphasis added).

298. The Company also reported $745 million of purported Carnegie Way benefits realized in 2016.

299. Defendants also attributed the fact that U.S. Steel did not turn a profit despite improving market conditions to "higher levels of imports" and "lower average realized prices," without any mention of the costly unplanned outages the Company sustained in 2016 as a result of years' worth of under-investment:

> The increase in Flat-Rolled results for 2016 compared to 2015 resulted from lower raw materials costs (approximately $275 million), reduced losses in 2016 after the shutdown of the blast furnace and associated steel making assets and most of the finishing operations at Fairfield Works in the third quarter of 2015 (approximately $145 million), decreased spending for repairs and maintenance and other operating costs (approximately $145 million), reduced costs associated with lower operating rates at our mining operations (approximately $70 million) and lower energy costs, primarily natural

> gas costs (approximately $55 million). These changes were partially offset by lower average realized prices (approximately $390 million) as a result of market conditions and higher levels of imports and higher costs for profit based payments (approximately $75 million).

300. Finally, with respect to U.S. Steel's outlook for 2017, Defendants forecasted net earnings of $535 million, or $3.08 per share and, again, claimed that U.S. Steel was poised to take advantage of favorable changes in market conditions:

> Outlook for 2017
>
> If market conditions, which include spot prices, raw material costs, customer demand, import volumes, supply chain inventories, rig counts and energy prices, remain at their current levels, we expect:
>
> - 2017 net earnings of approximately $535 million, or $3.08 per share, and EBITDA of approximately $1.3 billion;
> - Results for our Flat-Rolled, European, and Tubular segments to be higher than 2016;
> - To be cash positive for the year, primarily due to improved cash from operations; and
> - Other Businesses to be comparable to 2016 and approximately $50 million of postretirement benefit expense.
>
> The outlook for 2017 is based on market conditions as of February 22, 2017. We believe market conditions will change, and as changes occur during the balance of 2017, our net earnings and EBITDA should change consistent with the pace and magnitude of changes in market conditions.

301. The above statements were materially false and misleading when made because: (i) the Carnegie Way initiative was a sham that was largely the result of fabricated cost savings that were not actual savings, and/or cost cutting to such an extent that the purported savings cost, instead of saved, the Company

money; (ii) the purported "realized" Carnegie Way benefit of $745 million was materially overstated because U.S. Steel recognized purported cost savings for "multiple" projects every week ranging in an estimated value of up to $4-$5 million before the projects were complete or, in some instances, before they were even implemented; (iii) U.S. Steel was deferring badly needed maintenance and facility upgrades, rather than investing in the Company's infrastructure, resulting in "thousands of tons of missed steel production" of at least 20% of total capacity and, thus, U.S. Steel was no positioned to recover in a more favorable market; and (iv) U.S. Steel's business and prospects were far worse than represented.

## VI. THE TRUTH IS REVEALED

302. On April 25, 2017, after the market closed, U.S. Steel shocked the market when it issued a press release, entitled "United States Steel Corporation Reports First Quarter 2017 Results," announcing the Company's first quarter 2017 financial results (the "April 2017 Press Release"). While investors were expecting the Company to turn a profit based on its prior false and misleading statements, U.S. Steel announced a net loss of $180 million, or $1.03 per diluted share. The April 2017 Press Release also revealed: (i) an "unfavorable adjustment" to earnings of $35 million or $0.20 per diluted share due to the "loss on the shutdown of certain tubular assets"; (ii) a negative operating cash flow of $135 million; (iii) a $155 million decline in flat-roll earnings as compared to the previous quarter; (iv)

downgraded 2017 EBITDA guidance from $1.3 billion to $1.1 billion; and (v) downgraded earnings guidance from $3.08 to $1.50 per share.

303. The April 2017 Press Release further revealed, for the first time, that the Board, through U.S. Steel, actually conducted the Secondary Public Offering in August 2016 to fund the Company's asset revitalization plan in the face of increased unplanned outages and operational issues, with Defendant Longhi admitting in the April 2017 Press Release that the outages existed at the time of the SPO, stating unequivocally: "[w]e issued equity last August to give us the financial strength and liquidity to position us to establish an asset revitalization plan large enough to resolve our issues, and to see that plan through to completion." (Emphasis added). This disclosure was in direct contradiction to the Company's representations at the time of the SPO that it intended to "use the net proceeds from the offering for financial flexibility, capital expenditures and other general corporate purposes" and – just three weeks before the SPO – that "we have experienced fewer unplanned outages and lower maintenance costs…We are creating a more reliable and agile operating base."

304. The results reflected in the April 2017 Press Release were caused by U.S. Steel's extreme cost-cutting measures under the purported Carnegie Way initiative which resulted in U.S. Steel's top-down refusal and failure to invest in critically necessary new technology or maintain U.S. Steel's Flat-Rolled facilities,

contrary to their contemporaneous representations, and rendered U.S. Steel incapable of taking advantage of an aggressive upswing in the domestic steel market. The press release stated in relevant part:

> PITTSBURGH, April 25, 2017 – United States Steel Corporation (NYSE: X) reported a first quarter 2017 net loss of $180 million, or $1.03 per diluted share, which included an unfavorable adjustment of $35 million, or $0.20 per diluted share, associated with the loss on the shutdown of certain tubular assets. This compared to a first quarter 2016 net loss of $340 million, or $2.32 per diluted share, and a fourth quarter 2016 net loss of $105 million, or $0.61 per diluted share.
>
> For a description of the non-generally accepted accounting principles (nonGAAP) measures and a reconciliation from net earnings (loss) attributable to U. S. Steel, see the non-GAAP Financial Measures section.
>
> Commenting on results, U. S. Steel Chief Executive Officer Mario Longhi said, "While our segment results improved by over $200 million compared with the first quarter of 2016, ***operating challenges at our Flat-Rolled facilities prevented us from benefiting fully from improved market conditions***. However, we continue to be encouraged by the strength of our European business and we are also seeing improving energy markets. Overall, improved commercial conditions more than offset higher raw materials and energy costs and ***increased maintenance and outage spending driven by our asset revitalization efforts***. The execution of our asset revitalization program and the continued implementation of reliability centered maintenance practices are critical to achieving sustainable improvements in our operating performance and costs. We have built the financial strength and resources to move forward more aggressively on these initiatives, and remain focused on providing the service and solutions that will create value for our stockholders, customers, employees, and other stakeholders."
>
> 2017 Outlook
>
> Commenting on U. S. Steel's Outlook for 2017, Longhi said, "Market conditions have continued to improve, and we will realize greater benefits as these improved conditions are recognized more fully in our future results.

> We are focused on long-term and sustainable improvements in our business model that will position us to continue to be a strong business partner that creates value for our customers. This remains a cyclical industry and ***we will not let favorable near-term business conditions distract us from taking the outages we need to revitalize our assets in order to achieve more reliable and consistent operations, improve quality and cost performance***, and generate more consistent financial results. We issued equity last August to give us the financial strength and liquidity to position us to establish an asset revitalization plan large enough to resolve our issues, and to see that plan through to completion. As we get deeper into our asset revitalization efforts, we are seeing opportunities for greater efficiency in implementing our plan. ***We believe we can create more long-term and sustainable value by moving faster now***. We have made the strategic decision to ***accelerate our efforts to resolve the issues that challenge our ability to achieve sustainable long-term profitability***. We believe our objective to achieve economic profit across the business cycle will result in true value creation for all of our stakeholders over the long-term."
>
> If market conditions, which include spot prices, raw material costs, customer demand, import volumes, supply chain inventories, rig counts and energy prices, remain at their current levels, we expect:
>
> - 2017 net earnings of approximately $260 million, or $1.50 per share, and adjusted EBITDA of approximately $1.1 billion;
>
> - Results for our Flat-Rolled, European, and Tubular segments to be higher than 2016; and
>
> We believe market conditions will change, and as changes occur during the balance of 2017, we expect these changes to be reflected in our net earnings and adjusted EBITDA.

(Emphasis added).

305. Although Longhi alluded to taking outages, he failed to mention where the production problems were centered and which plants might require maintenance outages. Investors were further left in the dark regarding the precise figures or costs that the repairs would be and what they related to. In an email to

AMM, U.S. Steel spokeswoman stated: "[w]e do not provide that level of detail on outages." Michael Cowden, *USS Shares Plunge; Billion-Dollar Repairs Needed*, AMERICAN METAL MARKET (Apr. 26, 2017).

306. On April 26, 2017, Defendants held a conference call with analysts and investors (the "April 2017 Call"). During the April 2017 Call, Individual Defendants Longhi and Burritt further explained the implications of the previously undisclosed information concerning the Company's capital assets.

307. Longhi stated that a new multi-year revitalization plan ("Revitalization Plan") was being implemented in order for U.S. Steel to remedy the problems and inefficiencies it had experienced. Longhi stated that the Revitalization Plan will take "three to four years" and will "address some of the issues" in order to achieve "sustainable long-term profitability." Defendant Longhi described the plan as an "acceleration" which was expected to result in: (i) $300 million in increased investment costs per year of implementation; (ii) "more downtime" at facilities; and (iii) limiting of "steel production volumes." Longhi stated that the newly implemented acceleration program could be "safely, efficiently, and effectively" implemented even at the accelerated pace.

308. As a result of the dissemination of this previously undisclosed information, the price of U.S. Steel common stock declined from a closing share price of $31.11 on April 25, 2017 to close at $22.78 per share on April 26, 2017, ***a***

***loss of 27% or over $2 billion in market value, on extremely heavy trading volume***, representing the steepest drop in price since 1991.

309. Market analysts, even those who had previously been skeptical about U.S. Steel's maintenance and capital expenditures, were surprised at just how badly U.S. Steel's underinvestment impacted the Company's performance.

310. On April 26, 2017, Morningstar reported that "[a]lthough we have long maintained a negative outlook on U.S. Steel, the magnitude of the Company's earnings miss took us very much by surprise. . . . U.S. Steel's asset base is considerably older than the assets used by many of its competitors and, accordingly, it will continue to require sizable reinvestment."

311. On May 3, 2017 Jefferies admitted "[w]e were wrong. We underestimated elevated risks inherent with X's 'revitalization' efforts as well as cost headwinds in 1Q17 . . . ." Seth Rosenfeld of Jefferies noted that these repairs and maintenance "may also be an increasingly necessary step following years of underspending . . . . the disruption caused by these efforts will ultimately cap (U.S. Steel's) ability to participate in currently favorable markets."

312. Moreover, analysts recognized that the U.S. Steel's new guidance for 2017 was an admission by the Company that its own actions had affected capacity such that it was unable to take advantage of a rising steel market. On April 26, 2017 Credit Suisse reported that "X also noted it was effectively volume

constrained despite having significant latent capacity and restarting the Granite City hot rolling facility, which was done to limit the volume impact from the planned outages outlined last quarter. The ability of the US operations to run at consistently higher levels of productivity and volume is now called into question and therefore so is its future earnings power."

313. This information was even more of a shock considering U.S. Steel's competitors had not reported similar losses. Rather, "U.S. Steel's triple-digit loss is all the more notable because its competitors - Charlotte N.C.-based Nucor Corp.; Fort Wayne Ind.-based Steel Dynamics Inc. (SDI); and West Chester, Ohio-based AK Steel Corp - have all recorded big firstquarter profits." Michael Cowden, *USS' 1st-Qtr. Loss at $180M On Flat-Rolled Woes*, AMERICAN METAL MARKET (Apr. 25, 2017). Not only did they record profits, but as one article noted, "AK Steel Corp. swung to a profit on higher steel prices in its best first quarter since 2008." Michael Cowden, *The Week That Was: Strong Earnings, Except One*, AMERICAN METAL MARKET (May 1, 2017).

314. John Tumazos, president of Holmdel, N.J.-based Very Independent Research LLC told AMM that "It's not fun when you lose $180 million . . . . It's even less fun to lose $180 million when everyone else is swimming in cash." The Chairman, CEO and President of Cliffs Natural Resources also remarked that "[r]ecent weaknesses . . . by a few companies are not an indication of any

underlying problem with the steel business in the United States. These weaknesses are actually ***company specific***." AMM Staff, *The Week That Was: Strong Earnings, Except One*, AMERICAN METAL MARKET (May 1, 2017) (Emphasis added).

315. In a May 10, 2017 article in the Post-Gazette, Goodish was quoted criticizing Longhi and Burritt stating "to have an upturn and not be able to harvest the market is irresponsible. None of the top executives have a passion for the company and their jobs."

## VII. POST RELEVANT PERIOD EVENTS

316. On May 10, 2017, U.S. Steel announced Defendant Longhi was retiring from the CEO position, effective immediately, and would be replaced by Defendant Burritt.

317. According to industry analysts, "[a] new CEO also won't change the fact that the Pittsburgh-based steel maker faces the daunting task of overhauling its dated operations at the same time that competitors are bringing new equipment to the market in both the flat-rolled and pipe-and-tube areas." Michael Cowden, *USS Needs More Than New CEO: Analysts*, AMERICAN METAL MARKET (May 11, 2017).

318. Analyst Chuck Bradford of Bradford Research Inc. stated that "Longhi spent too much time lobbying for trade relief in Washington and not

enough time focusing on fixing the company's mills." Other analysts noted that the Carnegie Way initiative "cut too deep" and criticized U.S. Steel for its lack of transparency to investors. Michael Cowden, *USS Needs More Than New CEO: Analysts*, AMERICAN METAL MARKET (May 11, 2017).

319. One analyst commented that "U.S. Steel blamed the loss on production problems at its North American flat-rolled mills. Those problems appear to be centered around the company's rolling operations, although it's hard to say that with certainly ***because investors have been kept largely in the dark.'. . . These issues that they've had last year and into this year have not been clearly describe***d." Michael Cowden, *USS Needs More Than New CEO: Analysts*, AMERICAN METAL MARKET (May 11, 2017) (Emphasis added) (quoting John Tumazos, president of Very Independent Research LLC).

320. On July 25, 2017, U.S. Steel reported its second quarter 2017 results. In the July 25, 2017 Press Release, the Company reported essentially flat sales with a negligible increase of $419 million in net sales for the second quarter 2017 as compared to the first quarter 2017. Despite the Company's purported asset revitalization program, the Company reported flat-rolled shipments of 2,497 thousand tons for the second quarter, as compared to 2,404 thousand tons the previous quarter, representing a mere difference of 93 thousand tons. Defendant Burritt stated, in part: "Our investment in our facilities and our people continues to

increase. These strategic investments, combined with our focus on achieving operational excellence, will deliver continuous improvements in safety, quality, delivery and costs that will position us to succeed through business cycles, and support future growth initiatives."

321. The Company also released a July 25, 2017 Earnings Presentation, which reported, for the ***first time***, annual maintenance and outage expenses for 2015-2017. While annual maintenance and outage expense in 2015 and 2016 were $964 million and $950 million, respectively, 2017 is forecasted to incur ***$1.3 billion in expenses***. In fact, as of July 25, 2017, U.S. Steel has already spent $640 million on maintenance and outage expenses, which is over 67% of the total expenses in 2015 and 2016.

322. The July 25, 2017 Earnings Presentation further recounted a number of "project updates," including a $2 million investment in a Mon Valley Works BOP Cooling Tower, which was anticipated as being completed in the first quarter 2017. The Earnings Presentation also reported that the Mon Valley Works #2 Generator Replacement and Turbine Rebuild would be completed in the third quarter 2017 for $9 million. According confidential witnesses in the Securities Class Action, the second generator at Mon Valley broke in the fourth quarter 2016. Thus, this generator will have been inoperable for approximately one year, assuming it is in fact repaired by the third quarter 2017.

323. Despite the Company's July 25, 2017 promise to improve safety, on August 1, 2017, the Company announced an incident at its Great Lakes Works facility in Ecorse and River Rouge, Michigan involving injuries to five employees. The press release stated, in part:

> Earlier today there was an incident at U.S. Steel's Great Lakes Works in the facility's Hot Strip Mill.
>
> Five employees were transported to local hospitals for treatment. Two remain hospitalized at this time. One employee was treated and released at the plant's onsite medical care facility. Due to privacy laws, we cannot provide any additional information about the employees who were injured or their conditions.

324. Great Lakes is the same facility that a confidential witness in the Securities Class Action stated had cranes dating back to 1958 which were "almost unsafe to operate," and which received a violation notice from the Department of Environmental Quality back in April 2016 regarding its use of blast furnaces.

325. Indeed, analysts commented that while U.S. Steel temporarily benefitted from increased imports and steel prices as a result of Hurricane Harvey in August 2017, the Company would not benefit in the long term due to the massive underspending and lack of maintenance it performed in the years prior:

> While [management upgrading its earnings outlook] that's encouraging, ***relying on steel prices isn't enough to sustain momentum as U.S. Steel continues to face the humongous challenge of fixing operational inefficiencies and upgrading its core facilities on time to ride an upturn***.

> It'll come at a cost, too, which means the steelmaker will have to grow its earnings at a much faster clip to be able to compete with rivals that are already positioned for growth. As an investor, I'd prefer staying on the sidelines until U.S. Steel's efforts start showing up in its numbers than bet my money on one strong quarter.

(Emphasis added).[19]

326. Another Motley Fool article commented that the Company "appears to be poorly positioned for the future," explaining:

> The reason for that is management's decision to pull back on the spending that would have prepared the steel mill for the current upturn. It has plans to fix that, but those plans are too late to allow U.S. Steel to fully benefit from the steel rebound. [I]nvestors would be better off investing in a company like Nucor, where management didn't sacrifice the future to save some money in the present.[20]

327. Accordingly, U.S. Steel's lack of maintenance and attention to repairs continues to have grave repercussions to this day and will continue to cause unplanned outages and safety issues in future.

## VIII. THE INDIVIDUAL DEFENDANTS KNOWINGLY AND/OR RECKLESSLY MADE MATERIAL MISSTATEMENTS AND/OR OMITTED MATERIAL FACTS

328. As discussed herein, the Individual Defendants knew that U.S. Steel was not maintaining, repairing and investing in the Company's assets, particularly as it related to the Flat-Rolled Segment, resulting in numerous costly unplanned

---

[19] Neha Chamaria, *What Drove United States Steel Corporation Stock Up 17.1% in August*, THE MOTLEY FOOL (Sept. 9, 2017).

[20] 1 Reuben Gregg Brewer, *Is Management Really to Blame for United State Steel Corp.'s Woes?* THE MOTLEY FOOL (Aug. 10, 2017).

outages and repairs, decreased production and capacity utilization and a substantial loss of revenue and profits because: (A) they admitted such in their testimony before the ITC; (B) DRO and OER reports to which they had access and would have reviewed as part of their job responsibilities, reported declining production, delayed production and repairs, among other things, prior to and throughout the Relevant Period; (C) they admitted the Secondary Public Offering was conducted because the Company had insufficient funds to fix the massive asset revitalization needed to upgrade and repair its assets; (D) they reviewed and approved the capital and maintenance budgets; (E) Defendant Longhi was forced to retire once the truth was revealed; and (F) the Flat-Rolled Segment was U.S. Steel's "core" business.

### A. Members of Management Admitted in Sworn Testimony Before the International Trade Commission Before and During the Relevant Period that U.S. Steel Was Not Investing in Technology or Maintaining its Facilities

329. As alleged herein, members of the Company's management (including Defendant Longhi) admitted during their sworn testimony before the ITC that, contrary to their public statements, U.S. Steel was not maintaining or investing in its assets prior to and during the Relevant Period. The Individual Defendants further admitted that, as a consequence of the Company's actions, U.S. Steel was experiencing numerous unplanned outages, causing a significant decline in steel shipments and revenue. Defendants' ITC testimony demonstrates that they knew by at least mid-2015 that the resulting impact on U.S. Steel was

"catastrophic," "not sustainable," and would inevitably lead to additional plant closures.

330. For instance, U.S. Steel's General Manager, Rob Kopf, admitted during the August 18, 2015 ITC hearing that: "[U.S. Steel was] having to spend enormous amounts of money to put together alternatives for our customers, to still buy steel. Unfortunately***, those investments that we need to make are being -- we're not able to make them right now***." (Emphasis added). During the same August 18, 2015 ITC hearing, Doug Matthews, U.S. Steel's Senior Vice President of Industrial, Service Center and Mining Solutions, similarly admitted that the Company failed to invest in its facilities, stating: "As the U.S. grew out of the recent economic crisis and demand for cold-rolled steel increased, ***U.S. Steel had an opportunity to grow its business to reinvest in technology***, and its workers and undertake useful capital expenditures. ***However, subject imports deprived U.S. Steel and other U.S. producers of this opportunity***." (Emphasis added).

331. Defendant Longhi also confirmed that, as a result of the unplanned outages and repairs, the Company had experienced drastic declines in production, sales and capacity utilization. Specifically, during the May 24, 2016 ITC hearing, Defendant Longhi stated that "[t]he last two years should have been banner years for American cold-rolled steel producers. We should have been able to increase our sales, operate our plants on maximum capacity utilization levels, hire more

workers, ***make badly needed profits and re-invest some of those profits into new technologies and new products***," yet this was not what occurred. Longhi confessed that, "[i]nstead, [U.S. Steel] ***experienced dramatic declines in production, sales and capacity utilization***." As a result, Longhi revealed the Company could not invest in its assets: "In cold-rolled steel, the American industry's operating income and operating margins have been low and continue to decline***. In fact, they are nowhere near where they need to be for us to invest in our futur***e, to compete at home and abroad and to comply with all the environmental and regulatory requirements that we face." (Emphasis added).

332. Further, during Doug Matthews' August 18, 2015 testimony, he explained that "[o]nly yesterday we were forced to announce the shutdown of all steel making and rolling operations at our facility in Fairfield, Alabama." Doug Matthews was well aware that this shutdown, as well as others, severely impacted the Company, pleading: "Let me be clear, the current situation is not sustainable. We cannot afford cold-rolled steel at such low prices. ***We cannot afford to keep operating at such low levels of capacity utilization***. If these conditions continue, ***there is no question that there will be further shutdowns and layoffs*** throughout the industry." (Emphasis added).

333. Accordingly, Defendants admitted, as early as 2015 – well before the Relevant Period even began – that they were well aware that the Company was not

maintaining or investing in its assets, that U.S. Steel would continue to shut down facilitates as a result, and ultimately the impact on the Company was and would continue to be devastating.

### B. The Individual Defendants Were Aware that U.S. Steel Was Under-Investing and Deferring Desperately Needed Maintenance and Repairs Through the Daily Report of Operations and Operating Efficiency Report

334. The Individual Defendants were aware or recklessly disregarded that U.S. Steel was experiencing significant and costly unplanned outages and massive delays in production throughout the Relevant Period from data provided in the DROs and OERs, which accumulated and aggregated data from all of U.S. Steel's facilities, including: production delays, tons per turn, planned tons and actual tons, among other information. Members of management, including Defendants Burritt and Longhi had direct access to the DROs and OERs, which were available on U.S. Steel's internal website, through the click of a button on their desktop computers, and would have reviewed them as part of their job responsibilities.

335. According to a confidential witness in the Securities Class Action, the DROs showed a significant decline in production volume (by as much as 20%) as a result of unplanned outages and production delays from damaged equipment and repairs. That same witness further stated that actual production was often "not even close" to planned production throughout 2016 and the Company was missing production goals by "thousands of tons of missed steel production," which

occurred “quarter after quarter.” Another confidential witness in the Securities Class Action stated that the delays caused from planned and unplanned outages would be captured in the DROs, which captured the time a piece of equipment was not in operation.

336. Defendant Longhi, as the CEO of U.S. Steel responsible for day-to-day management decisions and for implementing the Company's long and short term plans, and Defendant Burritt, who served as President and CFO throughout the majority of the Relevant Period and who both spoke directly about these issues in Company press releases and during investor calls, had access to and would have reviewed the DROs and OERs, particularly in light of the representations made during testimony to the International Trade Commission.

337. As stated above, in his role as CEO, Defendant Longhi:

> As the only employee-director on the Board, Mr. Longhi is able to provide the Board with an “insider’s view” of what is happening in all facets of the Corporation. He shares not only his vision for the Corporation, but also his hands-on experience as a result of his daily management of the Corporation and constant communication with employees at all levels. His insider’s perspective provides the Board with invaluable information necessary to direct the business and affairs of the Corporation.

338. Accordingly, it is reasonable to believe that the members of the Board were aware of, and kept informed of, data provided in the DROs and OERs, including information concerning unplanned outages and delays in production throughout the Relevant Period.

### C. The Individual Defendants Belatedly Admitted U.S. Steel's Facilities Were Underperforming and Failing at the time of the Secondary Public Offering

339. On August 15, 2016, the Company conducted a Secondary Public Offering of 21.7 million shares of U.S. Steel common stock at a price of $23.00 per share, raising proceeds of approximately $482 million. The Secondary Public Offering was conducted for one reason only: U.S. Steel needed money to invest in its outdated equipment. Badly. Indeed, on April 25, 2017, ***nearly nine months after the Secondary Public Offering***, Defendant Longhi came clean, admitting in a press release that "[U.S. Steel] issued equity last August to give us the financial strength and liquidity to position us to ***establish an asset revitalization plan large enough to resolve our issues***, and to see that plan through to completion." (Emphasis added). Accordingly, the Secondary Public Offering was not for "financial flexibility" as investors were originally led to believe, but, rather, it was to fund the desperately needed maintenance and replacement of the Company's deteriorating assets.

340. Defendant Longhi's admission during the ITC proceedings further lends support to the fact the Company was relying on the Secondary Public Offering to keep the Company afloat. For instance, just three months prior to the Secondary Public Offering, Defendant Longhi had testified that the Company's "operating income and operating margins have been low and continue to decline"

and were "nowhere near where they need to be for [U.S. Steel] to invest in the future." Longhi cautioned that "these results do not even come close to representing a sufficient return for a capital-intensive industry like ours."

341. Accordingly, the Individual Defendants' express (albeit belated) admission that the Secondary Public Offering was conducted to "establish an asset revitalization plan large enough to resolve our issues," as well as the ITC testimony in the months and year prior, unequivocally demonstrates that the Individual Defendants knew the Company suffered from numerous operational issues by August 2016 and earlier.

### D. The Individual Defendants Were Aware That U.S. Steel Was Slashing Its Capital Expenditures and Maintenance Because They Reviewed and Approved the Maintenance and Capital Budgets

342. Following U.S. Steel's tremendous $1.5 billion full-year 2015 loss – with only $755 million left in cash on hand and bankruptcy on the brink – Defendants Longhi and Burritt doubled down on the purported Carnegie Way "transformation" by implementing extreme cost cutting measures in the form of mass layoffs, closure of swing and operating facilities, and drastic reductions in capital expenditures. While these measures were billed to investors as part of Carnegie Way and "not just a cost cutting initiative," in reality, Carnegie Way had become an extreme cost cutting measure designed to salvage the Company's bottom-line at any means necessary, including through the Defendants' top-down

refusal and failure to invest in critically necessary new technology or maintain U.S. Steel's Flat-Rolled facilities.

343. According to a confidential witness in the Securities Class Action, the U.S. Steel Board, upon which Defendant Longhi sat, approved the annual capital budget. Moreover, that confidential witness stated that Defendant Burritt routinely participated in capital budgeting meetings with that confidential witness and other members of the Company, including the Head of Engineering and various Directors, wherein capital budgets and spending were discussed. Thus, Defendants Longhi and Burritt knew that U.S. Steel had slashed its capital expenditures in 2016.

344. Simultaneously, U.S. Steel also idled some operating facilities and closed its "swing" facilities, i.e. those that are designed to absorb production capacity when U.S. Steel's primary facilities experience outages. This reduction in operations was striking – the facilities idled or permanently closed by U.S. Steel during the Relevant Period accounted for well over two-thirds of U.S. Steel's entire production capacity.

345. Accordingly, as the Individuals Defendants eventually conceded, the decision to drastically reduce capital expenditures and maintenance spending, at least in part, prevented the Company from investing in its facilities or conducting proper maintenance, which exacerbated the financial impact of the unplanned

outages produced by such under-maintained facilities. Yet inexplicably, the Individual Defendants falsely assured investors throughout the Relevant Period that "[w]e have achieved ***sustainable cost improvements*** through process efficiencies and ***investments in reliability centered maintenance*** (RCM), and we will continue to find more cost improvements," without any basis. (Emphasis added).

346. Again, as stated above, it is reasonable to believe that the members of the Board were aware of, and kept informed of by Defendants Longhi and Burritt, that the Carnegie Way had become an extreme cost cutting measure designed to salvage the Company's bottom-line at any means necessary, including through Defendants' top-down refusal and failure to invest in critically necessary new technology or maintain U.S. Steel's Flat-Rolled facilities.

### E. The Retirement of CEO Longhi Supports an Inference of Knowledge

347. As U.S. Steel continued to experience severe unplanned outages and operational issues, on February 28, 2017, the Company announced that Defendant Burritt – then the CFO – had been elected President and Chief Operating Officer and would assume all responsibility from Defendant Longhi for the day-to-day operations of U.S. Steel in the United States and Central Europe.

348. Shortly thereafter, on May 10, 2017, U.S. Steel announced that Defendant Longhi was retiring from the position of CEO, effective immediately, and that Defendant Burritt would assume the role in place of Longhi. While Longhi commented that his retirement was part of a pre-planned tenure, stating that he had envisioned a "five-year tenure" upon his hiring, the Employment Letter entered into between Longhi and the Company was silent as to a five-year tenure and was entered into on June 28, 2012—meaning there was nearly two months of tenure from his retirement date.

349. Defendant Longhi, of course, had been the brainchild behind the dismally failing Carnegie Way initiative at the time of his loss of day-to-day control of the Company and subsequent "retirement." Indeed, his purported retirement came just two weeks after U.S. Steel's dismal first quarter 2017 financial results – due to increased unplanned outages and operational issues, produced by the extreme cost cutting measures implemented by Defendant Longhi under the Carnegie Way initiative. Given the conspicuous timing and the fact that the success of Longhi's tenure at U.S. Steel was synonymous with the success of Carnegie way, his phasing out beginning in February 2017 and subsequent departure are probative of awareness by certain of the Individual Defendants.

### F. The Individual Defendants Knew that U.S. Steel's Facilities Were Underperforming or Experiencing Unplanned Outages Because U.S. Steel's Flat-Rolled Segment and Facilities was a Highly

**Material Aspect of the Company's Business Operations and its "Core" Business**

350. As alleged herein, during the Relevant Period, U.S. Steel's Flat-Rolled segment accounted for 67-70% of the Company's total steel shipments in tons and 67-73% of the Company's year-end net sales making the segment – by far, the Company's most important business segment.

351. As a result, U.S. Steel's Flat-Rolled segment constituted the Company's "core business operations" and a "vital corporate function" that U.S. Steel's most senior executives are rightly presumed to have knowledge of its performance as a matter of law. Indeed, the implementation of the Carnegie Way initiative was expressly designed to invest in and maintain U.S. Steel's Flat-Rolled facilities and, thus, knowledge of the severe unplanned outages and operational issues at the Flat-Rolled Segment facilities is virtually inexplicable absent fraud.

352. As stated above, in his role as a member of the Board and the Company's CEO, Defendant Longhi was responsible for reporting on the day to day operations of the Company. Thus, is reasonable to believe that Defendant Longhi would have kept the members of the Board informed of the above issues with the Company's Flat-Rolled segment, a core business operation of the Company.

## IX. THE INDIVIDUAL DEFENDANTS HAD MOTIVE TO MAKE MATERIAL MISSTATEMENTS AND/OR OMIT MATERIAL FACTS

### A. Defendants Burritt and Longhi Profited from Their Fraud by Making Millions of Dollars from Selling Off Large Blocks of Their Personal Holdings of U.S. Steel Common Stock at Inflated Prices

353. Defendants Burritt and Longhi were motivated to engage in the alleged fraudulent scheme and issue materially false and misleading statements and/or omit material facts in order to inflate U.S. Steel's common stock price and maximize their individual profits through insider trading. Defendants Longhi and Burritt's trading patterns before, during, and after the Relevant Period show that their trades were anything but routine and instead were directly motivated by a desire to profit from a fraudulent scheme designed to mask the problems experienced by U.S. Steel's deteriorating infrastructure and equipment.

354. As detailed below, Defendants Longhi and Burritt collectively sold ***699,671*** shares of U.S. Steel common stock over the course of only ***eight trading days*** during the Relevant Period for collective proceeds of ***$24,980,414.46***. These sales began immediately after U.S. Steel's November 2016 announcement that the Company had faced "some operational challenges," including "unplanned outages in the third quarter [2016]," but while U.S. Steel's stock price was still artificially inflated by the Secondary Public Offering and Defendant Longhi's tempering,

unequivocal assertion on a November 2, 2016 conference call that: "***no, we have not been under-spending…we've been investing appropriately [and] moving to minimize the conditions that we experienced in the past quarter, which is unplanned events***." (Emphasis added). Defendants have not sold a single share of U.S. Steel common stock before or after the Relevant Period.

355. These trades throughout the Relevant Period were highly unusual in both timing and amount, and correlated with market moving events or dates on which Defendants Longhi and Burritt would likely be in possession of material non-public information. Longhi and Burritt also traded, in parallel, approximately $25 million of personally held common stock over the course of only two weeks, immediately following their partial disclosure of "operational issues," and "unplanned outages." Further, Burritt sold approximately $8,363,327 of common stock on February 21, 2017, only eight days before he took over day-to-day control of the Company.

**1. Individual Defendant Longhi's Insider Sales**

356. During the Relevant Period and in the span of five total sales over only eight trading days, Individual Defendant Longhi sold 443,250 shares of U.S. Steel common stock, representing fifty-seven percent (57%) of his holdings for total proceeds of $14,930,871.40, all while in the possession of material non-public information and while the price of U.S. Steel's common stock was artificially

inflated as a result of U.S. Steel's materially false and misleading statements. Individual Defendant Longhi's Relevant Period sales are reflected in the following table:

| DATE | NO. SHARES | PRICE | PROCEEDS | 10B5-1 PLAN | CORRELATING EVENT |
|---|---|---|---|---|---|
| November 28, 2016 | 176,040 | $32.25 | $5,677,290 | No. | The Company's first tempered, partial disclosure of "operational challenges" and "unplanned outages," occurred on November 1, 2016. |
| November 28, 2016 | 101,160 | $32.24 | $3,261,398 | No. | Same as above. |
| December 5, 2016 | 54,500 | $35.00 | $1,907,500 | No. | Same as above. |
| December 7, 2016 | 53,450 | $36.18 | $1,933,821 | No. | Same as above. |
| December 7, 2016 | 58,100 | $37.02 | $2,150,862 | No. | Same as above. |

357. Individual Defendant Longhi was appointed CEO of U.S. Steel in September 2013, and ***did not sell a single share*** of U.S. Steel common stock until he sold 443,250 shares over the course of five transactions, during eight trading days, all while the price of U.S. Steel was artificially inflated by his own false and misleading statements. Defendant Longhi ***has not sold a single share*** of U.S. Steel common stock since the truth regarding U.S. Steel's business was disclosed in April 2017.

358. On May 8, 2017, U.S. Steel announced that Longhi would be retiring as CEO, effective immediately.

**2. Individual Defendant Burritt's Insider Sales**

359. During the Relevant Period and in the span of just four total sales, over only eight trading days, Individual Defendant Burritt sold 256,421 shares of U.S. Steel common stock, representing sixty-four percent (64%) of his holdings for total proceeds of $10,049,543.06, all while he was in possession of material non-public information and while the price of U.S. Steel's common stock was artificially inflated as a result of Defendants' materially false and misleading statements. Individual Defendant Burritt's Relevant Period sales are reflected in the following table:

| DATE | NO. SHARES | PRICE | PROCEEDS | 10B5-1 PLAN | CORRELATING EVENT |
|---|---|---|---|---|---|
| November 23, 2016 | 51,791 | $32.56 | $1,686,315 | No. | • The Company's first tempered, partial disclosure of "operational challenges" and "unplanned outages," occurred just weeks earlier, on November 1, 2016. |
| November 29, 2016 | 10b5-1 Trading Plan Established for February 21, 2017. | | | | |
| February 21, 2017 | 152,810 | $40.87 | $6,245,344 | Yes. | • Specifics regarding asset revitalization plan first disclosed in January 2017<br>• While the trade occurs in February 2017, the plan was adopted at the time of the same above suspicious circumstances.<br>• Burritt assumes day to day control of the Company on February 28, 2017. |
| February 21, 2017 | 33,560 | $40.87 | $1,371,597 | Yes. | • Same as above. |
| February 21, 2017 | 18,260 | $40.87 | $746,383 | Yes. | • Same as above. |

360. Individual Defendant Burritt was appointed CFO of U.S. Steel in September 2013, and ***did not sell a single share*** of U.S. Steel common stock until

he sold 256,421 shares over the course of four transactions, over only eight trading days, all while the price of U.S. Steel stock was artificially inflated by his own false and misleading statements. Defendant Burritt ***has not sold a single share*** of U.S. Steel common stock since the truth regarding U.S. Steel's business was disclosed in April 2017.

361. For those stock sales on February 21, 2017 that Burritt made pursuant to a 10b5-1 plan established on November 29, 2017, the circumstances under which the plans were created belies any inference that it was established in good faith. The plan in question was entered into during the Relevant Period, shortly after U.S. Steel's November 2016 announcement that the Company had faced "some operational challenges," including "unplanned outages in the third quarter [2016]."

362. Moreover, Defendant Burritt's 10b5-1 trades were highly irregular in terms of the number of shares sold in that they all occurred on one day. Sales pursuant to a trading plan should occur with a prescribed, regular pattern of stock sales, such as 500 shares a month on the 10th day of the month. This was not the case here. As reflected in the chart above, Defendant Burritt's trades all occurred on one day – seven days before Burritt was appointed COO and took control of day-to-day management of U.S. Steel – and thus, these trades are inherently suspicious.

### B. The Individual Defendants Had Motive to Inflate the Desperately Needed Proceeds from the Secondary Public Offering

363. The Individual Defendants were further motivated to engage in the fraudulent course of conduct alleged herein in order to complete the Secondary Public Offering on August 15, 2016, at the artificially inflated price of $23.00 per share, raising net proceeds of $482 million. Immediately prior to the Secondary Public Offering, the Individual Defendants or U.S. Steel expressly assured investors that: (i) "there has been and will be sustainable cost improvements through efficiency and investments in reliability centered maintenance." See July 29, 2015 Q&A Packet (Emphasis added); and (ii) "*we* ***have experienced fewer unplanned outages and lower maintenance costs***…We are creating a more reliable and agile operating base." See July 26, 2016 Earnings Presentation (Emphasis added).

364. Yet simultaneously, while testifying before the International Trade Commission, U.S. Steel also expressly acknowledged that "the investments that we need to make are being – ***we're not able to make them right now***."[21] (Emphasis added). In November of 2016, while announcing the third quarter 2016 results, U.S. Steel revealed that the Company had experienced "operational challenges," including "unplanned outages in the third quarter [2016]," meaning during the time

[21] See Robert Kofpf, U.S. Steel, August 18, 2015 Transcript in Cold-Rolled Steel Flat Products from Brazil, China, India, Japan Korea, Russia and the United Kingdom (Investigation Nos. 701- TA-540-544 and 731-TA-1283-1290).

of the August 2016 SPO. To make matters worse, when marketing the Secondary Public Offering to shareholders, the Company stated that it intended to "use the net proceeds from the offering for financial flexibility," yet Defendant Longhi belatedly revealed that U.S. Steel actually conducted the SPO to fund "an asset revitalization plan large enough to resolve our issues," thus admitting undisclosed operational issues existed at the time of the SPO, while the Company was trumpeting U.S. Steel's "***fewer unplanned outages and lower maintenance costs***….[and] more reliable and agile operating base." See July 26, 2016 Earnings Presentation (Emphasis added).

365. Without U.S. Steel's misrepresentations, the Secondary Public Offering would have been significantly less successful given the true nature of the Company's assets and equipment. Indeed, U.S. Steel purposefully masked the true condition of its assets to investors while misrepresenting the purpose of the SPO—in order to remedy the very same problems that U.S. Steel faced.

### C. The Individual Defendants Had Motive to Satisfy U.S. Steel's Obligations Under the Credit Facility

366. Defendants also had motive to mispresent the Company's financial and operational position in order to maintain its credit facilities as the Company continued to experience "negligible free cash flow," record year-over-year losses, and a stunning year-end 2015 loss of $1.5 billion, marking the Company's failure to turn a profit in the last six out of seven years. During the Relevant Period, U.S.

Steel's liquidity included cash and cash equivalents, amounts available under a $1.5 Billion Credit Facility, and amounts available under USSK credit facilities. For the 2016 fiscal year, approximately 48% of U.S. Steel's purported $2.9 billion in liquidity was attributable to the credit facilities.

367. As may be expected, these credit facilities came with strings attached – namely, that in order to draw on the credit facilities, U.S. Steel had to maintain certain financial covenants or risk reduction of the available credit. And in fact, due to the Company's poor financial performance over the 2015 and 2016 fiscal years, U.S. Steel had repeatedly failed to meet the financial covenants required to draw on its credit facilities, reducing the overall liquidity available to the Company. For instance, U.S. Steel admitted in the 2016 Annual Report:

> ***[S]ince the value of our inventory and trade accounts receivable less specified reserves calculated in accordance with the Third Amended and Restated Credit Agreement do not support the full amount of the facility at December 31, 2016, the amount available to the Company under this facility was reduced by $227 million***. Additionally, U. S. Steel must maintain a fixed charge coverage ratio of at least 1.00 to 1.00 for the most recent four consecutive quarters when availability under the Third Amended and Restated Credit Agreement is less than the greater of 10 percent of the total aggregate commitments and $150 million. ***Based on the most recent four quarters as of December 31, 2016, we would not meet this covenant. So long as we continue to not meet this covenant, the amount available to the Company under this facility is effectively reduced by $150 million***.

(Emphasis added).

368. The Third Amended and Restated Credit Agreement, dated July 27, 2015, governing the $1.5 Billion Credit Facility also stipulated, among other things, that U.S. Steel must provide materially accurate financial information (Section 5.01) and maintain all material properties in good working order or risk default and termination of the facility (Section 5.04).

369. Given U.S. Steel's increasingly precarious financial condition by the end of 2015, Defendants had every motive to make the false assurances relating to its financial and operational condition and keep U.S. Steel out of bankruptcy in the face of a remarkable $1.5 billion year-end 2015 loss.

### D. The Officer Defendants Had Motive to Preserve Their Excessive Compensation

370. The Officer Defendants were motivated to engage in the alleged fraudulent scheme and issue materially false and misleading statements and/or omit material facts in order to maximize their individual profits through executive compensation that was, as described in the Company's 2017 Definitive 14A Proxy Statement filed with the SEC on March 14, 2017 ("2017 Proxy Statement"), "designed to attract, reward and retain executives who make significant contributions through operational and financial achievements aligned with the goals and philosophy of our Carnegie Way transformation," as part of U.S. Steel's "strong pay-for-performance compensation culture."

371. Throughout the Relevant Period, in addition to their substantial, guaranteed salaries and considerable perquisites, Defendants Longhi and Burritt were granted excessive equity awards and other compensation that was ostensibly based on performance—all while ensuring the public did not understand or appreciate their failure to invest in necessary capital expenditures and maintenance needs that would have allowed U.S. Steel to realize the upside of the turnaround in the steel market the way the Company's competitors did.

372. In particular, the Officer Defendants reaped millions of dollars from incentive-based compensation tied to the Company's performance and certain performance metrics, including total shareholder return ("TSR"), which is derived from stock price appreciation and dividends paid. As disclosed in the 2017 Proxy Statement, a corporate governance highlight is that "Executive Compensation [Is] Driven by Pay-For-Performance Philosophy" pursuant to which the U.S. Steel's named executive officers, including Longhi and Burritt, were eligible to receive cash and equity grants that were based on certain metrics, including TSR, as well as grants of restricted stock units linked to stock price performance and stock options measured relative to appreciation in stock price. According to the 2017 Proxy Statement, the Officer Defendants' compensation is determined by means of "a strong pay-for-performance approach that links financial performance to the incentive opportunities realized by our executives."

373. Payment of performance compensation was purportedly justified by certain "highlights and accomplishments from 2016" identified in the 2017 Proxy, including:

- Our stock price increased by more than 300%, reflecting strong execution on our strategy and improved market conditions

- Realized $745 million of additional Carnegie Way benefits in 2016, building upon the $575 million and $815 million in Carnegie Way benefits realized in 2014 and 2015, respectively, underscoring the success of this transformational process.

- Ended 2016 with positive operating cash flow of $727 million and adjusted EBITDA of $510 million, despite beginning the year at historically low steel prices and facing the lowest full year average realized prices since 2004.

- Strong year-end liquidity of approximately $2.9 billion, including cash on hand of $1.5 billion, which supports our goal of maintaining a healthy balance sheet.

- Reduced long-term debt by over $100 million in 2016 which contributed to the reduction of net debt by more than 50% since 2013.

- Successfully completed a $980 million debt offering and a $500 million equity offering, which provide for future financial flexibility.

- Improved working capital by nearly $600 million, and over $1 billion over the last two years.

- Continued to aggressively address unfair trade practices through landmark legal action, including leading industry efforts to clarify and enforce existing laws.

- Out-performed the BLS and AISI industry safety benchmarks in both OSHA Recordable Days and Days Away From Work.

(Emphasis added).

374. Nevertheless, the Company saw fit to link some compensation to so-called "negative benchmarks," whereby executives would still hit their targets even if the Company lost millions. As reported by *Bloomberg* in an article entitled "*How to Lose Millions and Still Get Your Bonus*," the lax performance targets resulted in fat payouts:

> Senior Vice Presidents Douglas Matthews and James E. Bruno would be awarded 100 percent bonus payouts if the company's flat-rolled division, its largest operating segment, lost $15 million in 2016. That reflected the bad year the unit had in 2015, when it lost $237 million.
>
> But as it happened, the steel market rebounded and the flat-rolled unit made $345 million before interest and taxes. Their cash payments as a result hit 175 percent of targets. ***Chief Executive Officer Mario Longhi got a $4.53 million bonus, his biggest ever, reflecting total company net income that was more than double the target***.
>
> "In sectors like steel, your compensation program can be completely wrong just a couple of months later," said Brent Longnecker, CEO of compensation advisory firm Longnecker & Associates. "It's so fluid that you have to watch it constantly."

(Emphasis added).

375. Separate and apart from the fact that Defendants Longhi and Burritt received excessive compensation that was partially linked to the artificially inflated price of the Company's stock during the Relevant Period, the compensation and bonuses received by the Officer Defendants was materially excessive when compared to compensation opportunities available to the highest paid executives and board members at U.S. Steel's self-identified peers.

376. For 2016, Defendant Longhi received a $1.5 million salary, in addition to stock awards worth $2,837,507, option awards worth $1,425,049, non-equity incentive plan compensation worth $4,528,125, and other compensation worth $632,670, for a total compensation package worth $10,923,351. As seen below, this compensation package was larger than that paid to any CEO of a comparably-sized company in U.S. Steel's self-selected peer group.

377. Indeed, Longhi made approximately 2.67 times as much as the CEO of Alcoa Inc., which is roughly 2.38 times the size of U.S. Steel:

| 2016 CEO Compensation | | |
|---|---|---|
| Company | Market Capitalization (09 13 17) | CEO Compensation $ |
| The Goodyear Tire & Rubber Company | 8.13B | 19,798,104 |
| Deere & Company | 37.73B | 18,642,871 |
| Ingersoll-Rand Plc | 22.92B | 16,372,314 |
| Whirlpool Corp. | 12.83B | 16,148,142 |
| Freeport-McMoRan Copper & Gold Inc. | 20.16B | 15,982,666 |
| Illinois Tool Works Inc. | 49.22B | 14,839,529 |
| Lear Corp. | 10.7B | 14,443,535 |
| Cummins Inc. | 27.81B | 13,419,856 |
| International Paper Company | 23.19B | 13,300,308 |
| Eaton Corporation plc | 33.32B | 13,037,109 |
| Textron Inc. | 13.86B | 12,672,171 |
| PPG Industries Inc. | 26.95B | 12,468,674 |
| Eastman Chemical Co. | 12.4B | 11,398,067 |
| *US Steel Corporation (Longhi)* | *4.66B* | *10,923,351* |
| Parker-Hannifin Corporation | 22.36B | 10,786,328 |
| Nucor Corporation | 17.121B | 10,627,499 |
| Weyerhaeuser Co. | 24.93B | 10,338,963 |
| Reliance Steel & Aluminum Co. | 5.38B | 10,281,585 |
| Terex Corp. | 3.82B | 9,970,048 |
| Masco Corporation | 11.95B | 9,765,728 |
| Cliffs Natural Resources Inc. | 2.19B | 9,536,481 |
| PACCAR Inc. | 24.29B | 7,666,020 |
| Commercial Metals Company | 2.07B | 7,243,610 |
| Schnitzer Steel Industries, Inc.* | 702.88M | 7,070,553 |
| Steel Dynamics Inc. | 8.12B | 6,563,182 |
| AK Steel Holding Corporation | 1.81B | 5,944,407 |
| Navistar International Corporation | 3.81B | 4,895,853 |
| Allegheny Technologies Inc. | 2.46B | 4,870,954 |
| TimkenSteel Corporation* | 635.28M | 4,467,849 |
| Worthington Industries, Inc.* | 3.2B | 4,152,472 |
| Alcoa Inc. | 11.13B | 4,085,956 |
| Carpenter Technology Corporation* | 1.9B | 3,236,919 |
| Olympic Steel Inc.* | 204.328M | 953,984 |

378. Defendant Burritt was similarly overcompensated in 2016, a year in which he drew an $800,000 salary and received stock awards worth $891,720, option awards worth $447,864, non-equity incentive compensation worth

$1,820,000, and other compensation worth $116,000, for a total compensation package worth $4,075,589:

379. As with Longhi, Burritt also received more compensation than any CFO of a company similarly situated in terms of market capitalization. Indeed, Burritt earned just $30,000 less than the CFO of Deere & Company, a company more than eight times the size of U.S. Steel.

380. As such, the Officer Defendants had a considerable incentive to take steps to see that the stock price remained high, including their abject failure to properly invest in the Company so that its performance could improve concomitant with steel prices. It was only when U.S. Steel's abysmal earnings came out that the truth could no longer be concealed, and Defendants Longhi and Burritt began to reveal the truth of the dire situation, safeguarding their cash cow as long as possible.

**E. The Securities Class Action is Sustained**

381. On September 29, 2018, Judge Cathy Bissoon of the United States District Court for the Western District of Pennsylvania denied the defendants' motion to dismiss the Securities Class Action. In his Order, Judge Bissoon stated:

> First, the Court finds that statements such as "[w]e continue to implement our reliability centered maintenance process across all of our facilities," (Amended Complaint ¶ 7 (emphasis omitted)), and "[w]e took significant actions to align our overhead costs with our operations, contributing $100 million to our Carnegie Way benefits for this year," (id. at ¶ 156 (emphasis omitted)), are affirmative

statements. These statements, and similar statements that the U.S. Steel Defendants are alleged to have made throughout the Amended Complaint, concern past actions that U.S. Steel either took, or did not take, as a matter of fact. They are not statements "in the nature of omissions"; the statements are not merely misleading by virtue of omitted information, but rather contain affirmatively false statements of fact (taking Plaintiffs' allegations as true). Much in the surrounding circumstances may lead to a defendants' verdict at trial, but one cannot at this point enter judgment dismissing the complaint against them as a matter of law. *Id* at 15.

382. The Order further stated the following:

Second, the U.S. Steel Defendants argue, citing *In re Craftmatic Securities Litigation*, 890 F.2d 628 (3d Cir. 1989), that "claims essentially grounded on corporate mismanagement are not cognizable under federal law," *id.* at 638-39, by virtue of the Supreme Court's holding in *Sante Fe Industries, Inc. v. Green*, 430 U.S. 462 (1977) that a claim under Section 10(b) fails as to "transactions which constitute no more than internal corporate mismanagement," *id.* at 479. (U.S. Steel's MTD Brief 19.) Defendants' argument goes too far. There is nothing in either of these cases to suggest that alleged corporate mismanagement shields Defendants from liability under Section 10(b). Rather, a claim of mismanagement absent "any deception, misrepresentation, or nondisclosure" is what fails to suffice under federal securities laws. *Santa Fe*, 430 U.S. at 476; *see also Craftmatic*, 890 F.2d at 639 ("Although allegations of failure to disclose mismanagement alone do not state a claim under federal securities law, a claim that defendants failed to disclose material facts may be actionable."). As discussed above, Plaintiffs allege that Defendants made affirmative factual misrepresentations to investors that influenced their investment decisions, not merely poor internal management decisions that they failed to disclose. As a result, Defendants' cases are inapposite. *Id.* at 16.

383. The Opinion further stated the following:

The Court thus finds that Plaintiffs have sufficiently pleaded affirmative misrepresentations concerning whether U.S. Steel

> implemented RCM during the Class Period and whether U.S. Steel was spending money to implement this initiative.
>
> In addition, Plaintiffs allege that every quarterly earnings statement during the Class Period stated that the benefits of RCM implementation "are starting to be reflected in fewer unplanned outages and lower maintenance costs." (Amended Complaint ¶¶ 7, 115, 156, 188, 248, 266.) As Plaintiffs have sufficiently pleaded that RCM was not implemented during the Class Period, they have also sufficiently pleaded that any statement claiming a beneficial consequence of RCM, such as the statement quoted above, is a false statement. *Id.* at 17.

384. Finally, the Opinion stated the following:

> Thus, Plaintiffs have sufficiently pleaded the falsity, or falsity by omission, of the April 27 and July 27, 2016 statements concerning U.S. Steel's capacity to meet demand, given the true scope and severity of U.S. Steel's undisclosed maintenance and outage problems. *Id.* at 19.

385. Significantly, Judge Bissoon found that the actionable statements alleged in the Securities Action met the materially ***heightened*** pleading standards imposed upon the Securities Plaintiff by the PSLRA,[22] which are inapplicable in this shareholder derivative action.

---

[22] The PSLRA imposes significantly heightened pleading standards in private securities fraud litigation by requiring that a complaint plead with particularity both falsity and scienter. *See In re Vantive Corp. Sec. Litig.*, 283 F.3d 1079, 1084 (9th Cir. 2002). To meet these heightened standards, a complaint must specify each statement alleged to have been misleading, and, if an allegation regarding the statement or omission is made on information and belief, the complaint shall state with particularity all facts on which the belief is formed. Id. at 1085. With respect to pleading scienter, the PSLRA requires plaintiffs to state with particularity facts giving rise to a strong inference that a defendant acted with the required state of mind. 15 U.S.C. § 78-u4(b)(2). The inference of scienter must be more than merely

## X. DUTIES OF THE INDIVIDUAL DEFENDANTS

### A. Fiduciary Duties

386. By reason of their positions as officers, directors, and/or fiduciaries of U.S. Steel, and because of their ability to control the business and corporate affairs of U.S. Steel, the Individual Defendants owed, and owe, the Company and its shareholders fiduciary obligations of trust, loyalty, good faith, and due care, and were, and are, required to use their utmost ability to control and manage U.S. Steel in a fair, just, honest, and equitable manner. The Individual Defendants were, and are, required to act in furtherance of the best interests of U.S. Steel and its shareholders so as to benefit all shareholders equally and not in furtherance of their personal interest or benefit.

387. Each director and officer of the Company owes to U.S. Steel and its shareholders the fiduciary duty to exercise good faith and diligence in the administration of the affairs of the Company and in the use and preservation of its property and assets, as well as the highest obligations of fair dealing.

---

reasonable—it must be cogent and compelling, meaning that a complaint will only survive if a reasonable person would deem the inference of scienter cogent, and at least as compelling as any opposing inference one could draw from the facts alleged. *See Tellabs, Inc. v. Makor Issue & Rights, Ltd.*, 551 U.S. 308 (2007). Notably, the PSLRA's heightened pleading standards do not apply to this shareholder derivative action. *See In re Bank of Am. Corp. Sec., Derivative, & ERISA Litig.*, 757 F. Supp. 2d 260, 321 (S.D.N.Y. 2010).

388. In addition, as officers and/or directors of a publicly held company, the Individual Defendants had a duty to promptly disseminate accurate and truthful information with regard to the Company's financial and business prospects so that the market price of the Company's stock would be based on truthful and accurate information.

**B. Audit Committee Duties**

389. In addition to these duties, the members of the Audit Committee owed specific duties to U.S. Steel, under the Audit Committee's Charter, to review and approve quarterly and annual financial statements and earnings press releases, and to ensure that the Company had appropriate and effective internal controls over financial reporting.

390. Specifically, according to U.S. Steel's Audit Committee Charter, the Audit Committee's responsibilities include the principal functions of assisting the Board in its oversight duties and in this capacity:

Duties and Responsibilities

The duties and responsibilities of the Committee shall be as follows:

1. With respect to financial reporting:

a) The Committee will discuss the annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Corporation's disclosures under "Management's Discussion and Analysis." The Committee will review and approve the annual financial statements, the annual report to stockholders and the Form 10-K annual report giving special

consideration in such review to any material changes in accounting policy. The Committee will report regularly to the Board and review with the Board any issues that arise with respect to the quality or integrity of the Corporation's financial statements.

b) The Committee will review earnings press releases, and the type and presentation of information to be included in earnings press releases (paying particular attention to any use of pro forma or "adjusted" non-GAAP, information). The Committee will also discuss financial information and earnings guidance (if any) provided to analysts and rating agencies, which discussions may
be done generally (e.g., discussion of the types of information to be disclosed and the type of presentation to be made). The Committee need not discuss in advance each earnings release or each instance in which the Corporation may provide earnings guidance.

c) The Committee will review significant accounting, auditing, and Securities and Exchange Commission pronouncements.

d) While the fundamental responsibility for the Corporation's financial statements and disclosures rests with management, the Committee will review the following:

i. major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;

ii. analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and

iii. the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.

2. With respect to internal control:

a) The Committee will review management's quarterly report evaluating internal control over financial reporting to determine that the Corporation's administrative, operational and internal accounting controls have been periodically reviewed and examined to determine whether the Corporation is operating in accordance with its prescribed procedures and codes of conduct, whether there are any significant deficiencies or material weaknesses in internal controls, and whether there has been any fraud by persons significantly involved in internal control matters.

b) The Committee will review with management and the independent auditors their separate examinations and assessments of the Corporation's internal controls over financial reporting (including information systems controls and security), and any related significant findings and recommendations together with management's responses.

3. With respect to compliance:

a) The Committee will oversee and review the adequacy of procedures that have been established by the Corporation for the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, including the confidential, anonymous submissions of concerns regarding questionable accounting or auditing matters.

b) The Committee will receive and review reports from management or Internal Audit concerning compliance with corporate policies dealing with business conduct.

c) The Committee will review significant legal and regulatory matters that may impact the Corporation, and will report regularly to the Board and review with the Board any issues that arise with respect to the Corporation's compliance with legal or regulatory requirements.

d) The Committee will annually review the business expense reporting of the members of the Executive Management Committee of the Corporation.

4. With respect to the independent auditor:

a) The Committee will be directly responsible for the appointment (subject to stockholder ratification), compensation, retention, and oversight of the work of the Corporation's independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting), while possessing the sole authority to pre-approve all audit engagement fees and terms as well as all non-audit engagements with the independent auditor.

b) At least annually, the Committee will obtain and review the following:

i. a report by the independent auditor describing: the independent auditing firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and

ii. the independence letter issued by the independent auditor in accordance with regulatory requirements and guidelines, and will actively engage in a dialogue with the independent auditor with respect to any relationships disclosed in that letter; all of which will put the Committee in a position to evaluate the auditor's qualifications, performance and independence, which evaluation shall include the review and evaluation of the lead partner of the independent auditor and take into account the opinions of management and the Corporation's internal auditors, and which shall also include consideration of whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm itself and not just the regular rotation of the lead audit partner as required by law. The Committee will report regularly to the Board and review with the Board any issues with respect to the qualifications, performance, and independence of the independent auditor.

c) The Committee will meet periodically and separately with the independent auditor in executive session (without management present) to discuss any audit issues and management's response,

including any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management. It is the Committee's responsibility to resolve such disagreements regarding financial reporting practices.

d) The Committee shall establish and revise as necessary hiring policies for employees or former employees of the independent auditor, taking into account the pressures that may exist for auditors consciously or subconsciously seeking a job with the company they audit.

e) The Committee will continually explore ways to improve its working relationship with the independent auditor, including processes that permit informal discussion of accounting treatments well in advance of reporting deadlines.

5. With respect to internal audit:

a) The Committee will have functional responsibility for the internal audit function ("Internal Audit") that shall be managed by a chief auditor ("Chief Auditor"), appointed by the Committee and who may or may not be an employee of the Corporation, with administrative oversight by the Executive Vice President & Chief Financial Officer. The Committee will review this administrative oversight relationship annually to ensure it continues to provide the access, support, independence and objectivity needed for Internal Audit and the Chief Auditor.

b) At least annually the Committee will review the charter for Internal Audit's activities.

c) The Committee will meet periodically and separately in executive session (without the independent auditor or other members of management present) with the Chief Auditor to assess any concerns the Chief Auditor may have.

d) The Committee will review and approve Internal Audit's annual audit plan, provide direction to Internal Audit, and review its activities.

e) The Committee will review Internal Audit's performance and report regularly to the Board regarding Internal Audit's performance.

391. Further, regarding internal controls, the members of the Audit Committee owed specific duties to the Company under the Audit Committee Charter to:

1. Consider the effectiveness of the Company's internal control system, including information technology security and control and compliance with the reporting requirements of The Sarbanes-Oxley Act.

2. Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

3. In consultation with management and independent accountants, verify that the CEO and CFO have certified that they disclosed to the independent auditors and to the Audit Committee all significant deficiencies, if any, in the design or operation of internal controls that could affect the Company's ability to record, process, summarize and report financial data, any material weaknesses in the internal controls, and fraud – whether or not material – that involved management or other employees who have a significant role in the Company's internal control.

4. Analyze any internal control deficiencies, management or employee fraud identified by the CEO/CFO certification process or by the Disclosure Committee.

392. Upon information and belief, the Company maintained an Audit Committee Charter during the Relevant Period that imposed the same, or substantially and materially the same or similar, duties on the members of the Audit Committee as those set forth above.

### C. Duties Pursuant to the Company's Code of Conduct and Ethics

393. Additionally, the Individual Defendants, as officers and/or directors of U.S. Steel, were and are all bound by the Company's Code of Ethical Business Conduct (the "Code"). Specifically, it states the following:

> Conducting business ethically is vital to the long-term success of our company. The foundation of our ethical culture at U.S. Steel is the Code of Ethical Business Conduct. We expect that our directors and employees take personal responsibility to do what's right. This means more than just complying with laws and regulations. It means:
>
> - Taking responsibility for the safety of ourselves and others.
> - Treating others with dignity and respect.
> - Protecting the environment.
> - Conducting business with utmost integrity and only for the benefit of U. S. Steel.
> - Assuring that financial reports are accurate and safeguarding confidential information.
> - Protecting and properly using company assets.
> - Conducting business fairly and lawfully.

394. Upon information and belief, the Company maintained a version of the Code during the Relevant Period that imposed the same, or substantially and materially the same, or similar, duties on, among others, the Board as those set forth above.

### D. Control, Access, and Authority

395. The Individual Defendants, because of their positions of control and authority as directors and/or officers of U.S. Steel, were able to, and did, directly and/or indirectly, exercise control over the wrongful acts complained of herein, as well as the contents of the various public statements issued by U.S. Steel.

396. Because of their advisory, executive, managerial, and directorial positions with U.S. Steel, each of the Individual Defendants had access to adverse, non-public information about the financial condition, operations, and improper representations of U.S. Steel.

397. At all times relevant hereto, each of the Individual Defendants was the agent of each of the other Individual Defendants and of U.S. Steel, and was at all times acting within the course and scope of such agency.

### E. Reasonable and Prudent Supervision

398. To discharge their duties, the officers and directors of U.S. Steel were required to exercise reasonable and prudent supervision over the management, policies, practices, and controls of the financial affairs of the Company. By virtue of such duties, the officers and directors of U.S. Steel were required to, among other things:

(a) ensure that the Company complied with its legal obligations and requirements, including acting only within the scope of its legal authority and disseminating truthful and accurate statements to the investing public;

(b) conduct the affairs of the Company in an efficient, business-like manner so as to make it possible to provide the highest quality performance of its business to avoid wasting the Company's assets, and to maximize the value of the Company's stock;

(c) properly and accurately guide shareholders and analysts as to the true financial and business prospects of the Company at any given time, including making accurate statements about the Company's business and financial prospects and internal controls;

(d) remain informed as to how U.S. Steel conducted its operations, and, upon receipt of notice or information of imprudent or unsound conditions or practices, make reasonable inquiry in connection therewith, and take steps to correct such conditions or practices and make such disclosures as necessary to comply with securities laws; and

(e) ensure that U.S. Steel was operated in a diligent, honest, and prudent manner in compliance with all applicable laws, rules, and regulations.

## XI. BREACHES OF DUTIES

399. Each Individual Defendant, by virtue of their position as a director and/or officer, owed to U.S. Steel and its shareholders the fiduciary duties of loyalty and good faith, and the exercise of due care and diligence in the management and administration of the affairs of U.S. Steel, as well as in the use and preservation of its property and assets. The conduct of the Individual Defendants complained of herein involves a knowing and culpable violation of their obligations as directors and officers of U.S. Steel, the absence of good faith on their part, and a reckless disregard for their duties to U.S. Steel and its shareholders that the Individual Defendants were aware or should have been aware posed a risk of serious injury to U.S. Steel.

400. The Individual Defendants each breached their duties of loyalty and good faith by allowing the Individual Defendants to cause, or by themselves causing, the Company to make false and/or misleading statements that misled shareholders into believing that disclosures related to the Company's financial and business prospects were truthful and accurate when made.

401. In addition, as a result of the Individual Defendants' illegal actions and course of conduct, the Company is now the subject of the Securities Class Action that alleges violations of the federal securities laws, which has now survived a motion to dismiss under the heightened pleading standards of the

PSLRA. As a result, U.S. Steel has expended, and will continue to expend, significant sums of money to rectify the Individual Defendants' wrongdoing.

## XII. CONSPIRACY, AIDING AND ABETTING, AND CONCERTED ACTION

402. In committing the wrongful acts alleged herein, the Individual Defendants have pursued, or joined in the pursuit of, a common course of conduct, and have acted in concert with, and conspired with, one another in furtherance of their wrongdoing. The Individual Defendants further aided and abetted and/or assisted each other in breaching their respective duties.

403. During all times relevant hereto, the Individual Defendants collectively and individually initiated a course of conduct that was designed to mislead shareholders into believing that the Company's business and financial prospects were better than they actually were. In furtherance of this plan, conspiracy, and course of conduct, the Individual Defendants collectively and individually took the actions set forth herein.

404. The purpose and effect of the Individual Defendants' conspiracy, common enterprise, and/or common course of conduct was, among other things, to: (a) disguise the Individual Defendants' violations of law, including breaches of fiduciary duties and unjust enrichment; and (b) disguise and misrepresent the Company's actual business and financial prospects.

405. The Individual Defendants accomplished their conspiracy, common enterprise, and/or common course of conduct by causing the Company to purposefully, recklessly, or negligently release improper statements. Because the actions described herein occurred under the authority of the Board, each of the Individual Defendants was a direct, necessary, and substantial participant in the conspiracy, common enterprise, and/or common course of conduct complained of herein.

406. Each of the Individual Defendants aided and abetted and rendered substantial assistance in the wrongs complained of herein. In taking such actions to substantially assist the commissions of the wrongdoing complained of herein, each Individual Defendant acted with knowledge of the primary wrongdoing, substantially assisted the accomplishment of that wrongdoing, and was aware of their overall contribution to and furtherance of the wrongdoing.

## XIII. DAMAGES TO U.S. STEEL

407. As a result of the Individual Defendants' wrongful conduct, U.S. Steel disseminated false and misleading statements, and omitted material information to make such statements not false and misleading when made. The improper statements have devastated U.S. Steel's credibility. U.S. Steel has been, and will

continue to be, severely damaged and injured by the Individual Defendants' misconduct.

408. As a direct and proximate result of the Individual Defendants' actions as alleged above, U.S. Steel's market capitalization has been substantially damaged, having lost millions of dollars in value as a result of the conduct described herein.

409. Further, as a direct and proximate result of the Individual Defendants' conduct, U.S. Steel has expended, and will continue to expend, significant sums of money. Such expenditures include, but are not limited to:

(a) costs incurred in investigating and defending U.S. Steel and certain officers in the pending Securities Class Action, plus potentially millions of dollars in settlement or to satisfy an adverse judgment;

(b) costs incurred from compensation and benefits paid to the Individual Defendants, which compensation was based at least in part on U.S. Steel's artificially inflated stock price; and

(c) costs incurred from the loss of the Company's customers' confidence in U.S. Steel's products

410. Moreover, these actions have irreparably damaged U.S. Steel's corporate image and goodwill. For at least the foreseeable future, U.S. Steel will suffer from what is known as the "liar's discount," a term applied to the stocks of

companies who have been implicated in illegal behavior and have misled the investing public, such that U.S. Steel's ability to raise equity capital or debt on favorable terms in the future is now impaired.

## XIV. DERIVATIVE AND DEMAND ALLEGATIONS

411. Plaintiff Hoskins has continuously held U.S. Steel stock since the beginning of the Relevant Period and remains a shareholder of the Company to this date.

412. As detailed below, Plaintiff's pre-suit demand has been functionally refused by the Board, forcing Plaintiff to file this shareholder derivative action, and this Complaint, on behalf of the Company.

413. Plaintiff has not made any demand on shareholders of U.S. Steel to institute this action since such demand would be a futile and useless act for the following reasons:

(a) U.S. Steel is a publicly traded company with thousands of shareholders of record and at least hundreds of thousands of beneficial owners;

(b) making demand on such a number of shareholders would be impossible for Plaintiff, who has no means of collecting the names, addresses, or phone numbers of U.S. Steel shareholders; and

(c) making demand on all shareholders would force Plaintiff to incur excessive expenses and obstacles, assuming all shareholders could even be individually identified with any degree of certainty

414. Given the Board's wrongful, bad-faith, and unreasonable refusal of Plaintiffs' lawful demands to sufficiently investigate the misconduct, and/or to take sufficient action to remedy the harms caused to the Company, this shareholder derivative action should be permitted to proceed.

### A. Demand Allegations of Plaintiff Hoskins

415. On January 8, 2018, Darlene Spencer issued the Spencer Demand on the Board to investigate, and if warranted, commence an action against certain current and/or former directors and executive officers of the Company for violations of Delaware law. A true and correct copy of the Spencer Demand is attached hereto as **Exhibit A**.

416. Thereafter, Spencer's counsel received a letter, dated January 17, 2018, from William T. Purdue ("Purdue"), U.S. Steel's Deputy General Counsel, indicating receipt of the Spencer Demand which requested evidence of Spencer's ownership of U.S. Steel stock. A true and correct copy of the January 17, 2018 letter is attached hereto as **Exhibit B**.

417. On October 30, 2018, counsel for plaintiff resubmitted the demand to counsel for the Board of the Directors. On October 31, 2018, such counsel responded to Plaintiff's Counsel by email attaching a copy of the January 17, 2018 letter. The January 17, 2018 letter provided no legal authority—under Delaware law or otherwise—to condition a response and/or investigation of the matters raised in the Spencer Demand on the receipt of proof of Spencer's stock holdings.

418. On October 31, 2018, Plaintiff's Counsel, on behalf of Mr. Hoskins submitted proof of his ownership and stockholdings as sought by the Board of Directors. **Exhibit C**.

419. Thereafter, Hoskins' counsel received a letter from Duane D. Holloway ("Holloway"), Senior Vice President, General Counsel, Chief Ethics and Compliance Officer and Corporate Secretary dated November 9, 2018, which stated that "the Board will consider your demand at its upcoming meeting in January 2019, and you will be contacted after that meeting with an update." **Exhibit D**.

420. On January 11, 2019, counsel for Plaintiff and Mr. Hoskins informed the Board of the Directors, through its outside counsel, that the demand letter previously submitted to the Board of Directors on behalf of Ms. Spencer would no longer be pursued by Ms. Spencer, and would instead be pursued by Plaintiff in this Action.

421. On May 2, 2019, Hoskins' counsel followed up seeking an update from Holloway. On the same day, Mr. Holloway responded stating the following:

> On April 29, 2019, the Board of Directors considered the Demand Letter now being pursued on behalf of Mr. Hoskins.
>
> In light of the substantial overlap between the Demand Letter and the subject matter of a pending securities class action against the Company, captioned *Vrakas v. United States Steel Corp*., No. 17-579 (W.D. Pa.), the Board determined that it is in the Company's interest to defer consideration of the Demand Letter at present. The Board noted that pursuit by the Company of the claims alleged in the Demand Letter, while the *Vrakas* case is pending, could prejudice the Company's defense of the Vrakas matter, inasmuch as the Demand Letter and the *Vrakas* complaint make similar allegations of misconduct.
> The purpose of this letter is to inform you of the Board's determination. At the conclusion of the *Vrakas* matter, the Board will further address the Demand Letter if Mr. Hoskins still desires to pursue it then.

**Exhibit E**.

422. Hoskins' counsel responded to Mr. Holloway the same day that he deemed it as a refusal. Therein, Hoskins' counsel informed Mr. Holloway that under Delaware law, directors were dutybound upon receipt of a shareholder demand to promptly investigate that demand, and that whether the members of Management (as defined in the Spencer Demand) breached their fiduciary duties was independent from whether they engaged in fraud, as alleged in the Securities Class Action.

423. Accordingly, because it was clear that the Board had functionally refused his demand, Hoskins deemed it necessary to file this shareholder derivative action.

424. Mr. Holloway's letter confirmed no investigation was ever commenced even though the acts have taken place years ago. This is particularly troublesome because the Letter was issued after the Judge sustained the Securities Class Action (based on false and misleading statements). Accordingly, it is clear that somehow, the Board has no intention of pursuing any investigation of the wrongdoing alleged that forms the basis for sustained securities fraud claims. The Board's astounding failure to even commence an investigation into the falsity of the Company's public disclosures, particularly in light of the sustained Securities Class Action, renders their conduct wrongful on this basis alone.

425. Clearly, the Board's failure to conduct a bona-fide and independent investigation into the allegations raised in the Demand regarding the Company's disclosure issues, along with its complete disregard of the actual merits of the claims set forth in the Demand and prejudgment of the merits of the claims set forth in the Demand, is improper and demonstrates the Board's lack of diligence and good faith.

## XV. COUNTS

### COUNT I

**Against the Individual Defendants for Breach of Fiduciary Duties**

426. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein.

427. The Individual Defendants owed, and owe, U.S. Steel fiduciary obligations. By reason of their fiduciary relationships, the Individual Defendants owed, and owe, U.S. Steel the highest obligation of good faith, fair dealing, loyalty, due care, reasonable inquiry, oversight, and supervision.

428. The Individual Defendants violated and breached their fiduciary duties of good faith, fair dealing, loyalty, due care, reasonable inquiry, oversight, and supervision.

429. The Individual Defendants each knowingly, recklessly, or negligently: (i) made false or misleading statements that misrepresented or failed to disclose material information concerning the Company; (ii) approved the issuance of such false and/or misleading statements; (iii) failed to take actions to correct such false and/or misleading statements after they had been disseminated by the Company; (iv) failed to act independently and with due care in rejecting Plaintiffs' demands; and/or (v) failed to address the misconduct. These actions were not a good faith exercise of prudent business judgment to protect and promote the Company's corporate interests.

430. As a direct and proximate result of the Individual Defendants' failure to perform their fiduciary obligations, U.S. Steel has sustained significant damages. As a result of the misconduct alleged herein, the Individual Defendants are liable to the Company.

431. Plaintiffs, on behalf of U.S. Steel, have no adequate remedy at law.

**COUNT II**

**Against the Individual Defendants for Unjust Enrichment**

432. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein.

433. By their wrongful acts and omissions, the Individual Defendants were unjustly enriched at the expense of and to the detriment of U.S. Steel.

434. The Individual Defendants were unjustly enriched as a result of the compensation they received while breaching their fiduciary duties owed to U.S. Steel.

435. Plaintiffs, as shareholders and representatives of U.S. Steel, seek restitution from the Individual Defendants and seek an order from this Court disgorging all profits, benefits, and other compensation obtained by the Individual Defendants from their wrongful conduct and fiduciary breaches.

436. Plaintiffs, on behalf of U.S. Steel, have no adequate remedy at law.

**COUNT III**

**Against the Individual Defendants for Waste of Corporate Assets**

437. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

438. As a result of the misconduct described above, the Individual Defendants have wasted corporate assets by forcing the Company to expend valuable resources in defending itself in the Securities Class Action that they caused with their improper conduct, statements, and omissions.

439. As a result of the waste of corporate assets, the Individual Defendants are liable to the Company.

440. Plaintiff, on behalf of U.S. Steel, has no adequate remedy at law.

**COUNT IV**

**Against Defendants Longhi and Burritt for Breach of Fiduciary Duties for Insider Selling and Misappropriation of Information**

441. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

442. Defendants Longhi and Burritt, during the Relevant Period, engaged in the sale of Company stock while in possession of material information that had yet to be released to the investing public. Furthermore, these defendants participated in the scheme to keep the public unaware of the adverse information affecting the Company's stock price and benefited to the detriment of the investing public and the Company itself.

443. The information that was yet unreleased concerned problems experienced by the Company's deteriorating infrastructure and equipment.

444. This proprietary, non-public information concerning the Company's business and prospects was known by the Defendants who sold all or part of their shares throughout the Relevant Period and was done for their own self-interests, at the expense of U.S. Steel and the investing public.

445. By selling the Company's common stock while in possession of this information and failing to fully inform the investing public, Defendants Longhi and Burritt breached their fiduciary duties of good faith and loyalty to the Company.

446. As such, Defendants Longhi and Burritt are legally responsible to the Company for the significant profits they received from the sales of their stock in U.S. Steel. As such, Defendants Longhi and Burritt are legally responsible.

## XX. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs demand judgment as follows:

A. Against all Individual Defendants for the amount of damages sustained by the Company as a result of the Individual Defendants' violations of federal law, breaches of fiduciary duties, and unjust enrichment;

B. Directing U.S. Steel to take all necessary actions to reform and improve its corporate governance and internal procedures to comply with

applicable laws, and to protect U.S. Steel and its shareholders from a repeat of the damaging events described herein, including but not limited to, putting forward for shareholder vote resolutions for amendments to the Company's By-Laws or Articles of Incorporation, and taking such other action as may be necessary to place before shareholders for a vote the following corporate governance proposals or policies:

- a proposal to strengthen the Board's supervision of operations and compliance with applicable state and federal laws and regulations;
- a proposal to strengthen the Company's internal reporting and financial disclosure controls;
- a provision to permit shareholders of U.S. Steel to nominate at least three candidates for election to the Board to replace existing directors;
- a proposal to develop and implement procedures for greater shareholder input into the policies and guidelines of the Board;
- a proposal to ensure the accuracy of the qualifications of U.S. Steel's directors, executives, and other employees;
- a proposal to strengthen the Company's procedures for the receipt, retention, and treatment of complaints received by the Company regarding internal controls; and
- a provision to appropriately test and then strengthen the Company's internal operational control functions;

C. Awarding to U.S. Steel restitution from the Individual Defendants, and ordering disgorgement of all profits, benefits, and other compensation obtained by the Individual Defendants;

D. Awarding to Plaintiffs the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses; and

E. Granting such other and further relief as the Court deems just and proper.

Dated: August 5, 2019

Respectfully submitted,

**COOCH AND TAYLOR, P.A.**

*/s/ Blake A. Bennett*

Blake A. Bennett (#5133)
The Brandywine Building
1000 West Street, 10th Floor
Wilmington, DE 19801
(302) 984-3800

*Attorney for Plaintiff*

**OF COUNSEL**
Joshua M. Lifshitz
**LIFSHITZ & MILLER LLP**
821 Franklin Avenue, Suite 209
Garden City, New York 11530
Telephone: (516) 493-9780
Facsimile: (516) 280-7376
Email: jml@jlclasslaw.com

*Attorneys for Plaintiff*