CLIFFS NATURAL RESOURCES INC.
Form 10-Q
July 28, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______.

Commission File Number: 1-8944

CLIFFS NATURAL RESOURCES INC.

(Exact Name of Registrant as Specified in Its Charter)

Ohio (State or Other Jurisdiction of Incorporation or Organization)	34-1464672 (I.R.S. Employer Identification No.)
200 Public Square, Cleveland, Ohio (Address of Principal Executive Offices)	44114-2315 (Zip Code)

Registrant s Telephone Number, Including Area Code: (216) 694-5700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x

The number of shares outstanding of the registrant s Common Shares, par value $0.125 per share, was 146,016,897 as of July 25, 2011.

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Definitions

The following abbreviations or acronyms are used in the text. References in this report to the Company, we, us, our and Cliffs are to Cliffs Natural Resources Ir
and subsidiaries, collectively. References to A$ or AUD refer to Australian currency, C$ to Canadian currency and $ to United States currency.

Abbreviation or acronym	**Term**
Algoma	Essar Steel Algoma Inc.
Amapá	Anglo Ferrous Amapá Mineração Ltda. and Anglo Ferrous Logística Amapá Ltda.
ArcelorMittal USA	ArcelorMittal USA Inc.
ASC	Accounting Standards Codification
AusQuest	AusQuest Limited
Bloom Lake	Bloom Lake Iron Ore Mine Limited Partnership
C.F.R.	Cost and Freight
CLCC	Cliffs Logan County Coal LLC
Cockatoo	Cockatoo Island Joint Venture
Consolidated Thompson	Consolidated Thompson Iron Mines Limited
CSAP	Cross State Air Pollution Rule
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Empire	Empire Iron Mining Partnership
EPA	United States Environmental Protection Agency
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FMSH Act	Federal Mine Safety and Health Act 1977
F.O.B.	Free on board
Freewest	Freewest Resources Canada Inc.
GAAP	Accounting principles generally accepted in the United States
Hibbing	Hibbing Taconite Company
IASB	International Accounting Standards Board
ICE Plan	Amended and Restated Cliffs 2007 Incentive Equity Plan, As Amended
IFRS	International Financial Reporting Standards
INR	INR Energy, LLC
Ispat	Ispat Inland Steel Company
LIBOR	London Interbank Offered Rate
LTVSMC	LTV Steel Mining Company
MMBtu	Million British Thermal Units
MPCA	Minnesota Pollution Control Agency
MRRT	Minerals Resource Rent Tax
MSHA	Mine Safety and Health Administration
Northshore	Northshore Mining Company
Oak Grove	Oak Grove Resources, LLC
OCI	Other comprehensive income
OPEB	Other postretirement benefits
Pinnacle	Pinnacle Mining Company, LLC
PM_{10}	Particulate Matter
PPACA	Patient Protection and Affordable Care Act
Reconciliation Act	Health Care and Education Reconciliation Act
renewaFUEL	renewaFUEL, LLC
Ring of Fire properties	Black Thor, Black Label and Big Daddy chromite deposits
SEC	United States Securities and Exchange Commission
Sonoma	Sonoma Coal Project
Spider	Spider Resources Inc.
Tilden	Tilden Mining Company L.C.
TSR	Total Shareholder Return
United Taconite	United Taconite LLC
U.S.	United States of America
Wabush	Wabush Mines Joint Venture
Weirton	ArcelorMittal Weirton Inc.
WISCO	Wuhan Iron and Steel (Group) Corporation

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES

STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED OPERATIONS

	(In Millions, Except Per Share Amounts)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
REVENUES FROM PRODUCT SALES AND SERVICES				
Product	**$ 1,705.0**	$ 1,116.2	**$ 2,838.0**	$ 1,787.7
Freight and venture partners cost reimbursements	**100.8**	68.1	**151.0**	124.3
	1,805.8	1,184.3	**2,989.0**	1,912.0
COST OF GOODS SOLD AND OPERATING EXPENSES	**(1,075.0)**	(769.6)	**(1,659.5)**	(1,347.3)
SALES MARGIN	**730.8**	414.7	**1,329.5**	564.7
OTHER OPERATING INCOME (EXPENSE)				
Selling, general and administrative expenses	**(69.5)**	(42.5)	**(115.3)**	(86.9)
Consolidated Thompson acquisition costs	**(18.0)**	-	**(22.9)**	-
Exploration costs	**(18.2)**	(7.7)	**(28.8)**	(9.3)
Miscellaneous - net	**(8.2)**	1.3	**(4.4)**	10.7
	(113.9)	(48.9)	**(171.4)**	(85.5)
OPERATING INCOME	**616.9**	365.8	**1,158.1**	479.2
OTHER INCOME (EXPENSE)				
Gain on acquisition of controlling interests	**-**	-	**-**	38.6
Changes in fair value of foreign currency contracts, net	**50.4**	(10.0)	**106.7**	(7.7)
Interest income	**2.4**	2.7	**4.9**	5.1
Interest expense	**(81.0)**	(13.3)	**(119.2)**	(23.5)
Other non-operating income	**0.5**	6.5	**1.0**	7.2
	(27.7)	(14.1)	**(6.6)**	19.7
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY INCOME (LOSS) FROM VENTURES	**589.2**	351.7	**1,151.5**	498.9
INCOME TAX EXPENSE	**(151.9)**	(99.3)	**(293.9)**	(165.7)
EQUITY INCOME (LOSS) FROM VENTURES	**(11.3)**	8.2	**(8.3)**	4.8
NET INCOME	**426.0**	260.6	**849.3**	338.0
LESS: INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	**18.3**	(0.1)	**18.2**	(0.1)
NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	**$ 407.7**	$ 260.7	**$ 831.1**	$ 338.1
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - BASIC	**$ 2.93**	$ 1.93	**$ 6.06**	$ 2.50
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - DILUTED	**$ 2.92**	$ 1.92	**$ 6.02**	$ 2.49
AVERAGE NUMBER OF SHARES (IN THOUSANDS)				

Basic	**139,000**	135,319	**137,243**	135,247
Diluted	**139,783**	136,134	**137,987**	136,041
CASH DIVIDENDS DECLARED PER SHARE	**$ 0.14**	$ 0.14	**$ 0.28**	$ 0.2275

See notes to unaudited condensed consolidated financial statements.

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CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES

STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL POSITION

	(In Millions)	
	June 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 238.1**	$ 1,566.7
Accounts receivable	**317.2**	352.3
Accounts receivable from associated companies	**70.5**	6.8
Inventories	**605.3**	269.2
Supplies and other inventories	**156.9**	148.1
Derivative assets	**110.2**	82.6
Deferred and refundable taxes	**38.0**	43.2
Other current assets	**152.1**	114.8
TOTAL CURRENT ASSETS	**1,688.3**	2,583.7
PROPERTY, PLANT AND EQUIPMENT, NET	**9,802.4**	3,979.2
OTHER ASSETS		
Investments in ventures	**509.4**	514.8
Goodwill	**1,227.3**	196.5
Intangible assets, net	**159.5**	175.8
Deferred income taxes	**54.2**	140.3
Other non-current assets	**230.6**	187.9
TOTAL OTHER ASSETS	**2,181.0**	1,215.3
TOTAL ASSETS	**$ 13,671.7**	$ 7,778.2
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	**$ 306.9**	$ 266.5
Accrued expenses	**361.6**	266.6
Deferred revenue	**141.2**	215.6
Taxes payable	**140.3**	142.3
Current portion of term loan	**62.5**	-
Other current liabilities	**178.5**	137.7
TOTAL CURRENT LIABILITIES	**1,191.0**	1,028.7
POSTEMPLOYMENT BENEFIT LIABILITIES	**490.9**	528.0
LONG-TERM DEBT	**3,898.8**	1,713.1
BELOW-MARKET SALES CONTRACTS	**145.1**	164.4
ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS	**207.5**	184.9
DEFERRED INCOME TAXES	**890.1**	63.7
OTHER LIABILITIES	**328.3**	256.7
TOTAL LIABILITIES	**7,151.7**	3,939.5
COMMITMENTS AND CONTINGENCIES		
EQUITY		
CLIFFS SHAREHOLDERS EQUITY		
Common Shares - par value $0.125 per share		
Authorized - 400,000,000 shares (2010 - 224,000,000 shares);		
Issued - 149,195,469 shares (2010 - 138,845,469 shares);		
Outstanding - 146,010,183 shares (2010 - 135,456,999 shares)	**18.6**	17.3
Capital in excess of par value of shares	**1,760.3**	896.3
Retained Earnings	**3,717.7**	2,924.1

Cost of 3,185,286 common shares in treasury (2010 - 3,388,470 shares)	**(46.3)**	(37.7)
Accumulated other comprehensive income	**95.9**	45.9
TOTAL CLIFFS SHAREHOLDERS EQUITY	**5,546.2**	3,845.9
NONCONTROLLING INTEREST	**973.8**	(7.2)
TOTAL EQUITY	**6,520.0**	3,838.7
TOTAL LIABILITIES AND EQUITY	**$ 13,671.7**	$ 7,778.2

See notes to unaudited condensed consolidated financial statements.

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CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES

STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED CASH FLOWS

	(In Millions) Six Months Ended June 30,	
	2011	2010
CASH FLOW FROM OPERATIONS		
OPERATING ACTIVITIES		
Net income	**$ 849.3**	$ 338.0
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation, depletion and amortization	**185.2**	155.1
Changes in deferred revenue	**(98.1)**	(16.7)
Deferred income taxes	**75.9**	54.9
Equity (income) loss in ventures (net of tax)	**8.3**	(4.8)
Derivatives and currency hedges	**(89.8)**	(107.2)
Gain on acquisition of controlling interests	**-**	(38.6)
Other	**10.2**	11.0
Changes in operating assets and liabilities:		
Receivables and other assets	**7.0**	(132.4)
Product inventories	**(196.8)**	(75.0)
Payables and accrued expenses	**(26.2)**	51.4
Net cash provided by operating activities	**725.0**	235.7
INVESTING ACTIVITIES		
Acquisition of Consolidated Thompson, net of cash acquired	**(4,423.4)**	-
Acquisition of controlling interests, net of cash acquired	**-**	(107.2)
Purchase of property, plant and equipment	**(244.5)**	(63.0)
Settlements in Canadian dollar foreign exchange contracts	**93.1**	-
Cost of Canadian dollar foreign exchange option	**(22.3)**	-
Investment in Consolidated Thompson senior secured notes	**(125.0)**	-
Investments in ventures	**(1.3)**	(181.4)
Other investing activities	**2.6**	(5.6)
Net cash used by investing activities	**(4,720.8)**	(357.2)
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	**853.7**	-
Net proceeds from issuance of senior notes	**998.1**	395.1
Borrowings on term loan	**1,250.0**	-
Borrowings on bridge credit facility	**750.0**	-
Repayment of bridge credit facility	**(750.0)**	-
Debt issuance costs	**(47.7)**	-
Repayment of Consolidated Thompson convertible debentures	**(337.2)**	-
Repayment of $200 million term loan	**-**	(200.0)
Common stock dividends	**(38.0)**	(30.8)
Other financing activities	**(19.5)**	(16.6)
Net cash provided by financing activities	**2,659.4**	147.7
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**7.8**	(1.4)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,328.6)**	24.8
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,566.7**	502.7

CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 238.1**	$ 527.5

See notes to unaudited condensed consolidated financial statements.

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CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with SEC rules and regulations and in the opinion of management, contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management bases its estimates on various assumptions and historical experience, which are believed to be reasonable; however, due to the inherent nature of estimates, actual results may differ significantly due to changed conditions or assumptions. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of results to be expected for the year ended December 31, 2011 or any other future period. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2010.

The unaudited condensed consolidated financial statements include our accounts and the accounts of our wholly-owned and majority-owned subsidiaries, including the following subsidiaries:

Name	Location	Ownership Interest	Operation
Northshore	Minnesota	100.0%	Iron Ore
United Taconite	Minnesota	100.0%	Iron Ore
Wabush	Labrador/Quebec, Canada	100.0%	Iron Ore
Bloom Lake	Quebec, Canada	75.0%	Iron Ore
Tilden	Michigan	85.0%	Iron Ore
Empire	Michigan	79.0%	Iron Ore
Asia Pacific Iron Ore	Western Australia	100.0%	Iron Ore
Pinnacle	West Virginia	100.0%	Coal
Oak Grove	Alabama	100.0%	Coal
CLCC	West Virginia	100.0%	Coal
renewaFUEL	Michigan	95.0%	Biomass
Freewest	Ontario, Canada	100.0%	Chromite
Spider	Ontario, Canada	100.0%	Chromite

Intercompany transactions and balances are eliminated upon consolidation.

On May 12, 2011, we acquired all of the outstanding common shares of Consolidated Thompson for C$17.25 per share in an all-cash transaction, including net debt. The unaudited condensed consolidated financial statements as of and for the period ended June 30, 2011 reflect our 100 percent interest in Consolidated Thompson since that date. Refer to NOTE 5 ACQUISITIONS AND OTHER INVESTMENTS for further information.

The following table presents the detail of our investments in unconsolidated ventures and where those investments are classified on the Statements of Unaudited Condensed Consolidated Financial Position as of June 30, 2011 and December 31, 2010. Parentheses indicate a net liability.

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Investment	Classification	Interest Percentage	(In Millions) June 30, 2011	December 31, 2010
Amapá	*Investments in ventures*	30	$ 476.7	$ 461.3
AusQuest	*Investments in ventures*	30	7.3	24.1
Cockatoo	*Investments in ventures*	50	6.1	10.5
Hibbing	*Other liabilities*	23	(1.8)	(5.8)
Other	*Investments in ventures*		19.3	18.9
			$ 507.6	$ 509.0

During the second quarter of 2011, we recorded an impairment charge of $17.6 million related to the decline in the fair value of our 30 percent ownership interest in AusQuest that was determined to be other than temporary. We evaluated the severity of the decline in the fair value of the investment as compared to our historical carrying amount, considering the broader macroeconomic conditions and the status of current exploration prospects, and could not reasonably assert that the impairment period would be temporary. As of June 30, 2011, our investment in AusQuest had a fair value of $7.3 million based upon the closing market price of the 68.3 million shares held as of June 30, 2011. As we account for this investment as an equity method investment, we recorded the impairment charge as a component of *Equity Income (Loss) from Ventures* on the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011.

Reportable Segments

As a result of the acquisition of Consolidated Thompson, we have revised the number of our operating and reportable segments as determined under ASC 280. Our Company s primary operations are organized and managed according to product category and geographic location and now include: U.S. Iron Ore, Eastern Canadian Iron Ore, North American Coal, Asia Pacific Iron Ore, Asia Pacific Coal, Latin American Iron Ore, Alternative Energies, Ferroalloys and our Global Exploration Group. Our historical presentation of segment information consisted of three reportable segments: North American Iron Ore, North American Coal and Asia Pacific Iron Ore. Our restated presentation consists of four reportable segments: U.S. Iron Ore, Eastern Canadian Iron Ore, North American Coal and Asia Pacific Iron Ore. The amounts disclosed in NOTE 2 SEGMENT REPORTING reflects this restatement.

Significant Accounting Policies

A detailed description of our significant accounting policies can be found in the audited financial statements for the fiscal year ended December 31, 2010, included in our Annual Report on Form 10-K filed with the SEC. Due to the completion of our acquisition of Consolidated Thompson, there have been several changes in our significant accounting policies and estimates from those disclosed therein. The significant accounting policies requiring updates have been included within the disclosures below.

Inventories

U.S. Iron Ore

U.S. Iron Ore product inventories are stated at the lower of cost or market. Cost of iron ore inventories is determined using the LIFO method. We maintain ownership of the inventories until title has transferred to the customer, usually when payment is made. Maintaining ownership of the iron ore products at ports on the lower Great Lakes reduces risk of non-payment by customers, as we retain title to the product until payment is received from the customer. We track the movement of the inventory and verify the quantities on hand.

Eastern Canadian Iron Ore

Iron ore pellet inventories are stated at the lower of cost or market. Similar to U.S. Iron Ore product inventories, the cost is determined using the LIFO method. For the majority of these inventories, ownership is maintained until loading of the product at the port.

Iron ore concentrate inventories are stated at the lower of cost or market. The cost of iron ore concentrate inventories is determined using the weighted average cost. For the majority of the iron ore concentrate inventories, we maintain ownership of the inventories until title passes on the bill of lading date, which is the date of the shipment from the port.

Revenue Recognition and Cost of Goods Sold and Operating Expenses

U.S. Iron Ore

Revenue is recognized on the sale of products when title to the product has transferred to the customer in accordance with the specified provisions of each term supply agreement and all applicable criteria for revenue recognition have been satisfied. Most of our U.S. Iron Ore term supply agreements provide that title and risk of loss transfer to the customer when payment is received.

We recognize revenue based on the gross amount billed to a customer as we earn revenue from the sale of the goods or services. Revenue from product sales also includes reimbursement for freight charges paid on behalf of customers in *Freight and Venture Partners Cost Reimbursements* separate from product revenue.

Costs of goods sold and operating expenses represents all direct and indirect costs and expenses applicable to the sales and revenues of our mining operations. Operating expenses within this line item primarily represent the portion of the mining venture costs for which we do not own; that is, the costs attributable to the share of the mine s production owned by the other joint venture partners. The mining ventures function as captive cost companies; they supply product only to their owners effectively on a cost basis. Accordingly, the noncontrolling interests revenue amounts are stated at cost of production and are offset in entirety by an equal amount included in cost of goods sold and operating expenses resulting in no sales margin reflected in noncontrolling interest participants. As we are responsible for product fulfillment, we retain the risks and rewards of a principal in the transaction and accordingly record revenue under these arrangements on a gross basis.

Under certain term supply agreements, we ship the product to ports on the lower Great Lakes or to the customer s facilities prior to the transfer of title. Our rationale for shipping iron ore products to certain customers and retaining title until payment is received for these products is to minimize credit risk exposure. In addition, certain supply agreements with one customer include provisions for supplemental revenue or refunds based on the customer s annual steel pricing for the year the product is consumed in the customer s blast furnaces. We account for this provision as a derivative instrument at the time of sale and record this provision at fair value until the year the product is consumed and the amounts are settled as an adjustment to revenue.

Where we are joint venture participants in the ownership of a mine, our contracts entitle us to receive royalties and/or management fees, which we earn as the pellets are produced. Revenue is recognized on the sale of services when the services are performed.

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Eastern Canadian Iron Ore

Revenue is recognized on the sale of products when title to the product has transferred to the customer in accordance with the specified provisions of each term supply agreement and all applicable criteria for revenue recognition have been satisfied. Most of our Eastern Canadian Iron Ore term supply agreements provide that title and risk of loss transfer to the customer upon loading of the product at the port.

Since the acquisition date of Consolidated Thompson, *Product Revenues* and *Costs of goods sold and operating expenses* on the Statements of Unaudited Condensed Consolidated Operations reflects our 100 percent ownership interest in Consolidated Thompson. WISCO is a twenty-five percent equity holder in Bloom Lake, resulting in a noncontrolling interest adjustment for WISCO s ownership percentage to *Net income (loss) attributable to noncontrolling interest* on the Statements of Unaudited Condensed Consolidated Operations. As WISCO is a twenty-five percent equity holder in Bloom Lake and also our customer, we recognized $88.7 million of related party revenues on the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011, and $70.4 million of related party receivables on the Statements of Unaudited Condensed Consolidated Financial Position as of June 30, 2011.

Retrospective Adjustments

In accordance with the business combination guidance in ASC 805, we retrospectively recorded adjustments to the Wabush purchase price allocation that occurred during the second half of 2010 back to the date of acquisition that occurred during the first quarter of 2010. The adjustments were due to further refinements of the fair values of the assets acquired and liabilities assumed. Additionally, we continued to ensure our existing interest in Wabush was incorporating all of the book basis, including amounts recorded in *Accumulated other comprehensive income*. Due to these adjustments, the financial statements for the six months ended June 30, 2010 have been retrospectively adjusted for these changes, resulting in a decrease to *Income From Continuing Operations Before Income Taxes and Equity Income (Loss) from Ventures* of $22.0 million and a decrease to *Net Income Attributable to Cliffs Shareholders* of $15.9 million, respectively, on the Statements of Unaudited Condensed Consolidated Operations. The adjustments resulted in a decrease to basic and diluted earnings per common share of $0.12 and $0.11 per common share, respectively. In addition, *Retained Earnings* was decreased by $16.1 million and *Accumulated other comprehensive income* was increased by $25.3 million, respectively, on the Statements of Unaudited Condensed Consolidated Financial Position as of December 31, 2010 for the effect of these retrospective adjustments. Refer to NOTE 5 ACQUISITIONS AND OTHER INVESTMENTS for further information.

Recent Accounting Pronouncements

In January 2010, the FASB amended the guidance on fair value to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The amendment also revises the guidance on employers disclosures about postretirement benefit plan assets to require that disclosures be provided by classes of assets instead of by major categories of assets. The amended guidance is effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted the provisions of guidance required for the period beginning January 1, 2011; however, adoption of this amendment did not have a material impact on our consolidated financial statements.

In December 2010, the FASB issued amended guidance on business combinations in order to clarify the disclosure requirements around pro forma revenue and earnings. The update was issued in response to the diversity in practice about the interpretation of such requirements. The amendment specifies that pro forma revenue and earnings of the combined entity be presented as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The new guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We adopted the amended guidance upon our acquisition of Consolidated Thompson. Refer to NOTE 5 ACQUISITIONS AND OTHER INVESTMENTS for further information.

In May 2011, the FASB amended the guidance on fair value as a result of the joint efforts by the FASB and the IASB to develop a single, converged fair value framework. The converged fair value framework provides converged guidance on how to measure fair value and on what disclosures to provide about fair value measurements. The significant amendments to the fair value measurement guidance and the new disclosure requirements include: (1) the highest and best use and valuation premise for nonfinancial assets; (2) the application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risks; (3) premiums or discounts in fair value measurement; (4) fair value of an instrument classified in a reporting entity s shareholders equity; (5) for Level 3 measurements, a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, a description of the valuation process in place, and a narrative description of the sensitivity of the fair value to changes in the unobservable inputs and interrelationships between those inputs; and (6) the level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed. The new guidance is effective for interim and annual periods beginning after December 15, 2011. We are currently evaluating the impact that the adoption of this amendment will have on our consolidated financial statements.

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income in order to improve comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in OCI. The update also facilitates the convergence of GAAP and IFRS. The amendment eliminates the presentation options under ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. In either presentation option, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statements where the components of net income and the components of OCI are presented. The amendment does not change the items that must be reported in other comprehensive income. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and the amendments are required to be applied retrospectively. We are currently evaluating which presentation option we will choose and the impact that the adoption of this amendment will have on our consolidated financial statements.

NOTE 2 SEGMENT REPORTING

Our Company s primary operations are organized and managed according to product category and geographic location: U.S. Iron Ore, Eastern Canadian Iron Ore, North American Coal, Asia Pacific Iron Ore, Asia Pacific Coal, Latin American Iron Ore, Alternative Energies, Ferroalloys and our Global Exploration Group. The U.S. Iron Ore segment is comprised of our interests in five U.S. mines that provide iron ore to the integrated steel industry. The Eastern Canadian Iron Ore segment is comprised of two Eastern Canadian mines that provide iron ore primarily to the seaborne market to Asian steel producers. The North American Coal segment is comprised of our five metallurgical coal mines and one thermal coal mine that provide metallurgical coal primarily to the integrated steel industry and thermal coal primarily to the energy industry. The Asia Pacific Iron Ore segment is comprised of two iron ore mining complexes in Western Australia and provides iron ore to steel producers in China and Japan. There are no intersegment revenues.

The Asia Pacific Coal operating segment is comprised of our 45 percent economic interest in Sonoma, located in Queensland, Australia. The Latin American Iron Ore operating segment is comprised of our 30 percent Amapá interest in Brazil. The Alternative Energies operating segment is comprised of our 95 percent interest in renewaFUEL located in Michigan. The Ferroalloys operating segment is comprised of our interests in chromite deposits held by Freewest and Spider in Northern Ontario, Canada, and the Global Exploration Group is focused on early involvement in exploration activities to identify new world-class projects for future development or projects that add significant value to existing operations. The Asia Pacific Coal, Latin American Iron Ore, Alternative Energies, Ferroalloys and Global Exploration Group operating segments do not meet reportable segment disclosure requirements and therefore are not separately reported.

We evaluate segment performance based on sales margin, defined as revenues less cost of goods sold and operating expenses identifiable to each segment. This measure of operating performance is an effective measurement as we focus on reducing production costs throughout the Company.

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The following table presents a summary of our reportable segments for the three and six months ended June 30, 2011 and 2010:

	(In Millions)							
	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
Revenues from product sales and services:								
U.S. Iron Ore	$ 885.2	49%	$ 604.0	51%	$ 1,395.3	47%	$ 988.4	52%
Eastern Canadian Iron Ore	297.6	16%	110.8	9%	424.9	14%	183.7	10%
North American Coal	159.7	9%	116.2	10%	324.7	11%	197.3	10%
Asia Pacific Iron Ore	381.6	21%	309.4	26%	727.0	24%	468.9	25%
Other	81.7	5%	43.9	4%	117.1	4%	73.7	4%
Total revenues from product sales and services for reportable segments	$ 1,805.8	100%	$ 1,184.3	100%	$ 2,989.0	100%	$ 1,912.0	100%
Sales margin:								
U.S. Iron Ore	$ 441.1		$ 179.8		$ 802.4		$ 281.3	
Eastern Canadian Iron Ore	68.5		28.7		103.0		36.7	
North American Coal	(14.8)		23.0		(17.7)		12.4	
Asia Pacific Iron Ore	205.0		169.1		400.8		212.8	
Other	31.0		14.1		41.0		21.5	
Sales margin	730.8		414.7		1,329.5		564.7	
Other operating expense	(113.9)		(48.9)		(171.4)		(85.5)	
Other income (expense)	(27.7)		(14.1)		(6.6)		19.7	
Income from continuing operations before income taxes and equity income (loss) from ventures	$ 589.2		$ 351.7		$ 1,151.5		$ 498.9	
Depreciation, depletion and amortization:								
U.S. Iron Ore	$ 22.2		$ 15.7		$ 39.5		$ 27.5	
Eastern Canadian Iron Ore	30.1		14.4		39.9		25.6	
North American Coal	20.8		11.3		42.4		23.0	
Asia Pacific Iron Ore	24.9		40.3		48.9		66.2	
Other	7.4		6.8		14.5		12.8	
Total depreciation, depletion and amortization	$ 105.4		$ 88.5		$ 185.2		$ 155.1	
Capital additions (1):								
U.S. Iron Ore	$ 55.7		$ 19.2		$ 87.3		$ 27.2	
Eastern Canadian Iron Ore	60.7		3.2		64.2		4.6	
North American Coal	28.5		9.8		56.0		13.9	
Asia Pacific Iron Ore	58.0		12.5		83.3		20.2	
Other	3.5		2.2		6.6		4.8	
Total capital additions	$ 206.4		$ 46.9		$ 297.4		$ 70.7	

(1) Includes capital lease additions and non-cash accruals.

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A summary of assets by segment is as follows:

	(In Millions)	
	June 30, 2011	December 31, 2010
Segment Assets:		
U.S. Iron Ore	$ 1,807.6	$ 1,537.1
Eastern Canadian Iron Ore	7,525.6	629.6
North American Coal	1,625.4	1,623.8
Asia Pacific Iron Ore	1,429.2	1,195.3
Other	1,021.3	1,257.8
Total segment assets	13,409.1	6,243.6
Corporate	262.6	1,534.6
Total assets	$ 13,671.7	$ 7,778.2

NOTE 3 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The following table presents the fair value of our derivative instruments and the classification of each on the Statements of Unaudited Condensed Consolidated Financial Position as of June 30, 2011 and December 31, 2010:

	(In Millions) Derivative Assets			
	June 30, 2011		December 31, 2010	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Foreign Exchange Contracts	Derivative assets (current)	$ 8.9	Derivative assets (current)	$ 2.8
Total derivatives designated as hedging instruments under ASC 815		$ 8.9		$ 2.8
Derivatives not designated as hedging instruments under ASC 815:				
Foreign Exchange Contracts	Derivative assets (current)	$ 21.5	Derivative assets (current)	$ 34.2
	Deposits and miscellaneous	-	Deposits and miscellaneous	2.0
Customer Supply Agreements	Derivative assets (current)	64.0	Derivative assets (current)	45.6
Provisional Pricing Arrangements	Derivative assets (current)	15.8		-
	Accounts Receivable	14.1		-
		$ 115.4		$ 81.8

Total derivatives not designated as hedging instruments under ASC 815		
Total derivatives	$ 124.3	$ 84.6

There were no derivative instruments classified as a liability as of June 30, 2011 or December 31, 2010.

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Derivatives Designated as Hedging Instruments

Cash Flow Hedges

Australian Dollar Foreign Exchange Contracts

We are subject to changes in foreign currency exchange rates as a result of our operations in Australia. Foreign exchange risk arises from our exposure to fluctuations in foreign currency exchange rates because the functional currency of our Asia Pacific operations is the Australian dollar. Our Asia Pacific operations receive funds in U.S. currency for their iron ore and coal sales. We use foreign currency exchange forward contracts, call options and collar options to hedge our foreign currency exposure for a portion of our sales receipts. U.S. currency is converted to Australian dollars at the currency exchange rate in effect at the time of the transaction. The primary objective for the use of these instruments is to reduce exposure to changes in Australian and U.S. currency exchange rates and to protect against undue adverse movement in these exchange rates. Effective October 1, 2010, we elected hedge accounting for certain types of our foreign exchange contracts entered into subsequent to September 30, 2010. These instruments are subject to formal documentation, intended to achieve qualifying hedge treatment, and are tested for effectiveness at inception and at each reporting period. Our hedging policy allows no more than 75 percent of anticipated operating costs for up to 12 months and no more than 50 percent of operating costs for up to 24 months to be designated as cash flow hedges of future sales. If and when these hedge contracts are determined not to be highly effective as hedges, the underlying hedged transaction is no longer likely to occur, or the derivative is terminated, hedge accounting is discontinued.

As of June 30, 2011, we had outstanding foreign currency exchange contracts with a notional amount of $135.0 million in the form of forward contracts with varying maturity dates ranging from July 2011 to May 2012. This compares with outstanding foreign currency exchange contracts with a notional amount of $70 million as of December 31, 2010.

Changes in fair value of highly effective hedges are recorded as a component of *Accumulated other comprehensive income* on the Statements of Unaudited Condensed Consolidated Financial Position. Unrealized gains of $3.0 million and $4.9 million, respectively, were recorded for the three and six months ended June 30, 2011 related to these hedge contracts, based on the Australian to U.S. dollar spot rate of 1.07 as of June 30, 2011. Any ineffectiveness is recognized immediately in income and as of June 30, 2011, there was no ineffectiveness recorded for these foreign exchange contracts. Amounts recorded as a component of *Accumulated other comprehensive income* are reclassified into earnings in the same period the forecasted transaction affects earnings and are recorded as *Product Revenues* on the Statements of Unaudited Condensed Consolidated Operations. For the three and six months ended June 30, 2011, we recorded realized gains of $1.9 million and $2.2 million, respectively. Of the amounts remaining in *Accumulated other comprehensive income*, we estimate that $6.2 million will be reclassified into earnings within the next 12 months.

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The following summarizes the effect of our derivatives designated as hedging instruments on *Accumulated other comprehensive income* and the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011 and 2010:

(In Millions)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	Three months ended June 30,			Three months ended June 30,	
	2011	2010		2011	2010
Australian Dollar Foreign Exchange Contracts *(hedge designation)*	$ 3.0	$ -	Product Revenue	$ 0.8	$ -
Australian Dollar Foreign Exchange Contracts *(prior to de-designation)*	-	-	Product Revenue	0.5	1.6
Total	$ 3.0	$ -		$ 1.3	$ 1.6
	Six months ended June 30,			Six months ended June 30,	
	2011	2010		2011	2010
Australian Dollar Foreign Exchange Contracts *(hedge designation)*	$ 4.9	$ -	Product Revenue	$ 1.0	$ -
Australian Dollar Foreign Exchange Contracts *(prior to de-designation)*	-	-	Product Revenue	0.7	3.2
Total	$ 4.9	$ -		$ 1.7	$ 3.2

Derivatives Not Designated as Hedging Instruments

Australian Dollar Foreign Exchange Contracts

Effective July 1, 2008, we discontinued hedge accounting for all outstanding foreign currency exchange contracts entered into at the time and continued to hold such instruments as economic hedges to manage currency risk as described above. The notional amount of the outstanding non-designated foreign exchange contracts was $105 million as of June 30, 2011. The contracts are in the form of collar options and forward contracts with varying maturity dates ranging from July 2011 to January 2012. This compares with outstanding non-designated foreign exchange contracts with a notional amount of $230 million as of December 31, 2010.

As a result of discontinuing hedge accounting, the instruments are prospectively marked to fair value each reporting period through *Changes in fair value of foreign currency contracts, net* on the Statements of Unaudited Condensed Consolidated Operations. For the three and six months ended June 30, 2011, the change in fair value of our foreign currency contracts resulted in net gains of $7.0 million and $11.4 million, respectively, based on the Australian to U.S. dollar spot rate of 1.07 at June 30, 2011. This compares with net losses of $10.0 million and $7.7 million for the three and six months ended June 30, 2010, respectively, based on the Australian to U.S. dollar spot rate of 0.85 at June 30, 2010. The amounts that were previously recorded as a component of *Accumulated other comprehensive income* are reclassified to earnings and a corresponding realized gain or loss is recognized in the same period the forecasted transaction affects earnings.

Canadian Dollar Foreign Exchange Contracts and Options

On January 11, 2011, we entered into a definitive arrangement agreement with Consolidated Thompson to acquire all of its common shares in an all-cash transaction, including net debt. We hedged a portion of the purchase price on the open market by entering into foreign currency exchange forward contracts and an option contract with a combined notional amount of C$4.7 billion. The hedge contracts were considered economic hedges which do not qualify for hedge accounting. The forward contracts had maturity dates of March 30, 2011 and the option contract had a maturity date of April 14, 2011.

During the first half of 2011, swaps were executed in order to extend the maturity dates of certain of the forward contracts through the consummation of the Consolidated Thompson acquisition and the repayment of the Consolidated Thompson convertible debentures. These swaps and the maturity of the forward contracts resulted in net realized gains of $41.5 million and $93.1 million, respectively, recognized through *Changes in fair value of foreign currency contracts, net* on the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011.

Customer Supply Agreements

Most of our U.S. Iron Ore long-term supply agreements are comprised of a base price with annual price adjustment factors, some of which are subject to annual price collars in order to limit the percentage increase or decrease in prices for our iron ore pellets during any given year. The price adjustment factors vary based on the agreement but typically include adjustments based upon changes in international pellet prices, changes in specified Producers Price Indices including those for all commodities, industrial commodities, energy and steel. The adjustments generally operate in the same manner, with each factor typically comprising a portion of the price adjustment, although the weighting of each factor varies based upon the specific terms of each agreement. The price adjustment factors have been evaluated to determine if they contain embedded derivatives. The price adjustment factors share the same economic characteristics and risks as the host contract and are integral to the host contract as inflation adjustments; accordingly, they have not been separately valued as derivative instruments.

Certain supply agreements with one U.S. Iron Ore customer provide for supplemental revenue or refunds based on the customer s average annual steel pricing at the time the product is consumed in the customer s blast furnace. The supplemental pricing is characterized as a freestanding derivative and is required to be accounted for separately once the product is shipped. The derivative instrument, which is finalized based on a future price, is marked to fair value as a revenue adjustment each reporting period until the pellets are consumed and the amounts are settled. We recognized $46.5 million and $71.1 million, respectively, as *Product revenues* on the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011, related to the supplemental payments. This compares with *Product revenues* of $48.4 million and $68.3 million, respectively, for the comparable periods in 2010. Derivative assets, representing the fair value of the pricing factors, were $64.0 million and $45.6 million, respectively, on the June 30, 2011 and December 31, 2010 Statements of Unaudited Condensed Consolidated Financial Position.

Provisional Pricing Arrangements

During 2010, the world s largest iron ore producers began to move away from the annual international benchmark pricing mechanism referenced in certain of our customer supply agreements, resulting in a shift in the industry toward shorter-term pricing arrangements linked to the spot market. This change has impacted certain of our U.S. Iron Ore and Eastern Canadian Iron Ore customer supply agreements for the 2011 contract year, and in some cases we have revised the terms of such agreements to incorporate changes to historical pricing mechanisms. As a result, we have recorded certain shipments made to our U.S. Iron Ore and Eastern Canadian Iron Ore customers in the first half of 2011 on a provisional basis until final settlement is reached. The pricing provisions are characterized as freestanding derivatives and are required to be accounted for separately once the product is shipped. The derivative instrument, which is settled and billed once final pricing settlement is reached, is marked to fair value as a revenue adjustment each reporting period based upon the estimated forward settlement until prices are actually settled. We recognized $289.4 million and $309.4 million, respectively, as an increase in *Product revenues* on the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011 under these pricing provisions for certain shipments to our U.S. Iron Ore and Eastern Canadian Iron Ore customers. This compares with an increase in *Product revenues* of $389.3 million and $731.5 million for the three and six months ended June 30, 2010 related to estimated forward price settlement for shipments to our Asia Pacific Iron Ore, U.S. Iron Ore and Eastern Canadian Iron Ore customers until prices actually settled.

As of June 30, 2011, we have recorded approximately $15.8 million as current *Derivative assets* on the Statements of Unaudited Condensed Consolidated Financial Position related to our estimate of final pricing in 2011 with our U.S. Iron Ore and Eastern Canadian Iron Ore customers. This amount represents the incremental difference between the provisional price agreed upon with our customers and our estimate of the ultimate price settlement in 2011. As of June 30, 2011, we also have derivatives of $14.1 million classified as *Accounts receivable* on the Statements of Unaudited Condensed Consolidated Financial Position to reflect the amount we have provisionally agreed upon with certain of our Eastern Canadian Iron Ore customers until a final price settlement is reached. It also represents the amount we have invoiced for shipments made to such customers and expect to collect in cash in the short-term to fund operations. In 2010, the derivative instrument was settled in the fourth quarter upon the settlement of pricing provisions with some of our U.S. Iron Ore customers and therefore is not reflected in the Statements of Unaudited Condensed Consolidated Financial Position at December 31, 2010.

The following summarizes the effect of our derivatives that are not designated as hedging instruments, on the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011 and 2010:

(In Millions)

Derivative Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
Foreign Exchange Contracts	Product Revenues	$ 2.6	$ 2.2	$ 3.2	$ 5.0
Foreign Exchange Contracts	Other Income (Expense)	48.5	(10.0)	104.5	(7.7)
Customer Supply Agreements	Product Revenues	46.5	48.4	71.1	68.3
Provisional Pricing Arrangements	Product Revenues	289.4	389.3	309.4	731.5

Total	$ 387.0	$ 429.9	$ 488.2	$ 797.1

Refer to NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS for additional information.

NOTE 4 INVENTORIES

The following table presents the detail of our *Inventories* on the Statements of Unaudited Condensed Consolidated Financial Position as of June 30, 2011 and December 31, 2010:

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	(In Millions)					
	June 30, 2011			December 31, 2010		
Segment	Finished Goods	Work-in Process	Total Inventory	Finished Goods	Work-in Process	Total Inventory
U.S. Iron Ore	$ 317.1	$ 18.8	$ 335.9	$ 101.1	$ 9.7	$ 110.8
Eastern Canadian Iron Ore	147.5	35.3	182.8	43.5	21.2	64.7
North American Coal	5.0	23.0	28.0	16.1	19.8	35.9
Asia Pacific Iron Ore	37.7	14.5	52.2	34.7	20.4	55.1
Other	4.9	1.5	6.4	2.6	0.1	2.7
Total	$ 512.2	$ 93.1	$ 605.3	$ 198.0	$ 71.2	$ 269.2

NOTE 5 ACQUISITIONS AND OTHER INVESTMENTS

We allocate the cost of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. Any excess of cost over the fair value of the net assets acquired is recorded as goodwill.

Wabush

We acquired entities from our former partners that held their respective interests in Wabush on February 1, 2010, thereby increasing our ownership interest to 100 percent. Our full ownership of Wabush has been included in the consolidated financial statements since that date. The acquisition date fair value of the consideration transferred totaled $103 million, which consisted of a cash purchase price of $88 million and a working capital adjustment of $15 million. With Wabush s 5.5 million tons of production capacity, acquisition of the remaining interest has increased our Eastern Canadian Iron Ore equity production capacity by approximately 4.0 million tons and has added more than 50 million tons of additional reserves. Furthermore, acquisition of the remaining interest has provided us additional access to the seaborne iron ore markets serving steelmakers in Europe and Asia.

Prior to the acquisition date, we accounted for our 26.8 percent interest in Wabush as an equity-method investment. We initially recognized an acquisition date fair value of the previous equity interest of $39.7 million, and a gain of $47.0 million as a result of remeasuring our prior equity interest in Wabush held before the business combination. The gain was recognized in the first quarter of 2010 and was included in *Gain on acquisition of controlling interests* in the Statements of Unaudited Condensed Consolidated Operations for the three months ended March 31, 2010.

In the months subsequent to the initial purchase price allocation, we further refined the fair values of the assets acquired and liabilities assumed. Additionally, we also continued to ensure our existing interest in Wabush was incorporating all of the book basis, including amounts recorded in *Accumulated other comprehensive income*. Based on this process the acquisition date fair value of the previous equity interest was adjusted to $38.0 million. The changes required to finalize the U.S. and Canadian deferred tax valuations and to incorporate additional information on assumed asset retirement obligations offset to a net decrease of $1.7 million in the fair value of the equity interest from the initial purchase price allocation. Thus, the gain resulting from the remeasurement of our prior equity interest, net of amounts previously recorded in *Accumulated other comprehensive income* of $20.3 million, was adjusted to $25.0 million as of December 31, 2010.

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Under the business combination guidance in ASC 805, prior periods, beginning with the period of acquisition, are required to be revised to reflect changes to the original purchase price allocation. In accordance with this guidance, we have retrospectively recorded the adjustments to the fair value of the acquired assets and assumed liabilities and the resulting *Goodwill* and *Gain on acquisition of controlling interests,* made during the second half of 2010, back to the date of acquisition. Accordingly, such amounts are reflected in the Statements of Unaudited Condensed Consolidated Operations for the six months ended June 30, 2010 and have been excluded from the three months ended June 30, 2010. We finalized the purchase price allocation for the acquisition of Wabush during the fourth quarter of 2010.

Freewest

During 2009, we acquired 29 million shares, or 12.4 percent, of Freewest, a Canadian-based mineral exploration company focused on acquiring, exploring and developing high-quality chromite, gold and base-metal properties in Canada. On January 27, 2010, we acquired all of the remaining outstanding shares of Freewest for C$1.00 per share, including its interest in the Ring of Fire properties in Northern Ontario, Canada, which comprise three premier chromite deposits. As a result of the transaction, our ownership interest in Freewest increased from 12.4 percent as of December 31, 2009 to 100 percent as of the acquisition date. Our full ownership of Freewest has been included in the consolidated financial statements since the acquisition date. The acquisition of Freewest is consistent with our strategy to broaden our geographic and mineral diversification and allows us to apply our expertise in open-pit mining and mineral processing to a chromite ore resource base that could form the foundation of North America s only ferrochrome production operation. Assuming favorable results from pre-feasibility and feasibility studies and receipt of all applicable approvals, the planned mine is expected to allow us to produce 600 thousand metric tons of ferrochrome and to produce one million metric tons of chromite concentrate annually. Total purchase consideration for the acquisition was approximately $185.9 million, comprised of the issuance of 0.0201 of our common shares for each Freewest share, representing a total of 4.2 million common shares or $173.1 million, and $12.8 million in cash. The acquisition date fair value of the consideration transferred was determined based upon the closing market price of our common shares on the acquisition date.

Prior to the acquisition date, we accounted for our 12.4 percent interest in Freewest as an available-for-sale equity security. The acquisition date fair value of the previous equity interest was $27.4 million, which was determined based upon the closing market price of the 29 million previously owned shares on the acquisition date. We recognized a gain of $13.6 million in the first quarter of 2010 as a result of remeasuring our ownership interest in Freewest held prior to the business acquisition. The gain is included in *Gain on acquisition of controlling interests* in the Statements of Consolidated Operations for the six months ended June 30, 2010.

We finalized the purchase price allocation in the fourth quarter of 2010. Under the business combination guidance in ASC 805, prior periods, beginning with the period of acquisition, are required to be revised to reflect changes to the original purchase price allocation. In accordance with this guidance, we have retrospectively recorded the adjustments to the fair value of the acquired assets and assumed liabilities and the resulting *Goodwill,* made during the fourth quarter of 2010, back to the date of acquisition.

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CLCC

On July 30, 2010, we acquired the coal operations of privately-owned INR, and since that date, the operations acquired from INR have been conducted through our wholly-owned subsidiary known as CLCC. Our full ownership of CLCC has been included in the consolidated financial statements since the acquisition date, and the subsidiary is reported as a component of our North American Coal segment. The acquisition date fair value of the consideration transferred totaled $775.9 million, which consisted of a cash purchase price of $757 million and a working capital adjustment of $18.9 million.

CLCC is a producer of high-volatile metallurgical and thermal coal located in southern West Virginia. CLCC s operations include two underground continuous mining method metallurgical coal mines and one open surface thermal coal mine. The acquisition includes a metallurgical and thermal coal mining complex with a coal preparation and processing facility as well as a large, long-life reserve base with an estimated 59 million tons of metallurgical coal and 62 million tons of thermal coal. This reserve base increases our total global reserve base to over 166 million tons of metallurgical coal and over 67 million tons of thermal coal. This acquisition represents an opportunity for us to add complementary high-quality coal products and provides certain advantages, including among other things, long-life mine assets, operational flexibility, and new equipment.

The following table summarizes the consideration paid for CLCC and the fair values of the assets acquired and liabilities assumed at the acquisition date. We finalized the purchase price allocation in the second quarter of 2011. Under the business combination guidance in ASC 805, prior periods, beginning with the period of acquisition, are required to be revised to reflect changes to the original purchase price allocation. In accordance with this guidance, we have retrospectively recorded the adjustments to the fair value of the acquired assets and assumed liabilities and the resulting *Goodwill* back to the date of acquisition. We adjusted the initial purchase price allocation for the acquisition of CLCC as follows:

		(In Millions)	
	Initial Allocation	Final Allocation	Change
Consideration			
Cash	$ 757.0	$ 757.0	$ -
Working capital adjustments	17.5	18.9	(1.4)
Fair value of total consideration transferred	$ 774.5	$ 775.9	$ (1.4)
Recognized amounts of identifiable assets acquired and liabilities assumed			
ASSETS:			
Product inventories	$ 20.0	$ 20.0	$ -
Other current assets	11.8	11.8	-
Land and mineral rights	640.3	639.3	1.0
Plant and equipment	111.1	112.3	(1.2)
Deferred taxes	16.5	15.9	0.6
Intangible assets	7.5	7.5	-
Other non-current assets	0.8	0.8	-
Total identifiable assets acquired	808.0	807.6	0.4
LIABILITIES:			
Current liabilities	(22.8)	(24.1)	1.3
Mine closure obligations	(2.8)	(2.8)	-
Below-market sales contracts	(32.6)	(32.6)	-

Total identifiable liabilities assumed	(58.2)	(59.5)	1.3
Total identifiable net assets acquired	749.8	748.1	1.7
Goodwill	24.7	27.8	(3.1)
Total net assets acquired	$ 774.5	$ 775.9	$ (1.4)

As our fair value estimates remain materially unchanged from 2010, there were no significant changes to the purchase price allocation from the initial allocation reported during the third quarter of 2010.

Of the $7.5 million of acquired intangible assets, $5.4 million was assigned to the value of in-place permits and will be amortized on a straight-line basis over the life of the mine. The remaining $2.1 million was assigned to the value of favorable mineral leases and will be amortized on a straight-line basis over the corresponding mine life.

The $27.8 million of goodwill resulting from the acquisition was assigned to our North American Coal business segment. The goodwill recognized is primarily attributable to the addition of complementary high-quality coal products to our existing operations and operational flexibility. None of the goodwill is expected to be deductible for income tax purposes. Refer to NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS AND LIABILITIES for further information.

With regard to the acquisitions discussed above, pro forma results of operations have not been presented because the effects of the business combinations, individually and in the aggregate, were not material to our consolidated results of operations.

Consolidated Thompson

On May 12, 2011, we completed our previously announced acquisition of Consolidated Thompson by acquiring all of the outstanding common shares of Consolidated Thompson for C$17.25 per share in an all-cash transaction, including net debt, pursuant to the terms of the definitive arrangement agreement dated as of January 11, 2011. Upon the acquisition: (a) each outstanding Consolidated Thompson common share was acquired for a cash payment of C$17.25; (b) each outstanding option and warrant that was in the money was acquired for cancellation for a cash payment of C$17.25 less the exercise price per underlying Consolidated Thompson common share; (c) each outstanding performance share unit was acquired for cancellation for a cash payment of C$17.25; (d) all outstanding Quinto Mining Corporation rights to acquire common shares of Consolidated Thompson were acquired for cancellation for a cash payment of C$17.25 per underlying Consolidated Thompson common share; and (e) certain Consolidated Thompson management contracts were eliminated that contained certain change of control provisions for contingent payments upon termination. The acquisition date fair value of the consideration transferred totaled $4.6 billion. Our full ownership of Consolidated Thompson has been included in the consolidated financial statements since the acquisition date, and the subsidiary is reported as a component of our Eastern Canadian Iron Ore segment.

The acquisition of Consolidated Thompson reflects our strategy to build scale by owning expandable and exportable steelmaking raw material assets serving international markets. Consolidated Thompson is a Canadian mining company producing iron ore concentrate of high-quality. Consolidated Thompson operates an iron ore mine and processing facility near Bloom Lake in Quebec, Canada. WISCO is a twenty-five percent equity holder in Bloom Lake. Bloom Lake is currently ramping up towards an initial production rate of 8.0 million metric tons of iron ore concentrate per year. During the second quarter of 2011, additional capital investments were approved in order to increase the initial production rate to 16.0 million metric tons of iron ore concentrate per year. Consolidated Thompson also owns two additional development properties, Lamêlée and Peppler Lake, in Quebec. All three of these properties are in proximity to our existing Canadian operations and will allow us to leverage our port facilities and supply this iron ore to the seaborne market. The acquisition is also expected to further diversify our existing customer base.

The following table summarizes the consideration paid for Consolidated Thompson and the estimated fair values of the assets and liabilities assumed at the acquisition date. We are in the process of conducting a valuation of the assets acquired and liabilities assumed related to the acquisition, most notably, tangible assets, deferred taxes and goodwill, and the final allocation will be made when completed. Accordingly, the provisional measurements noted below are preliminary and subject to modification in the future.

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	(In Millions) Initial Allocation
Consideration	
Cash	$ 4,554.0
Fair value of total consideration transferred	$ 4,554.0
Recognized amounts of identifiable assets acquired and liabilities assumed	
ASSETS:	
Cash	$ 130.6
Accounts receivable	102.8
Product inventories	134.2
Other current assets	35.1
Mineral rights	4,450.0
Property, plant and equipment	1,193.4
Intangible assets	2.1
Total identifiable assets acquired	6,048.2
LIABILITIES:	
Accounts payable	(13.6)
Accrued liabilities	(130.0)
Convertible debentures	(335.7)
Other current liabilities	(41.8)
Long-term deferred tax liabilities	(831.5)
Wabush Easement	(11.1)
Senior secured notes	(125.0)
Capital lease obligations	(70.7)
Other long-term liabilities	(14.0)
Total identifiable liabilities assumed	(1,573.4)
Total identifiable net assets acquired	4,474.8
Noncontrolling interest in Bloom Lake	(947.6)
Preliminary goodwill	1,026.8
Total net assets acquired	$ 4,554.0

The fair value of the noncontrolling interest in the assets acquired and liabilities assumed of Bloom Lake has been proportionately allocated, based upon WISCO s twenty-five percent interest in Bloom Lake. We then reduced the allocated fair value of WISCO s ownership interest in Bloom Lake to reflect a noncontrolling interest discount.

The $1,026.8 million of preliminary goodwill resulting from the acquisition has been assigned to our Eastern Canadian Iron Ore business segment. The preliminary goodwill recognized is primarily attributable to the proximity to our existing Canadian operations which will allow us to leverage our port facilities and supply iron ore to the seaborne market. None of the preliminary goodwill is expected to be deductible for income tax purposes. Refer to NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS AND LIABILITIES for further information.

Acquisition related costs in the amount of $18.0 million and $22.9 million, respectively, have been charged directly to operations and are included within *Consolidated Thompson acquisition costs* on the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011. In addition, we recognized $16.7 million of deferred debt issuance costs, net of accumulated amortization of $0.7 million, associated with issuing and registering the debt required to fund the acquisition as of June 30, 2011. Of these costs, $1.7 million and $15.0 million, respectively, have been recorded in *Other current assets* and *Other non-current assets* on the June 30, 2011 Statements of Unaudited Condensed Consolidated Financial Position. Upon the termination of the bridge credit facility that we entered into to provide a portion of the financing for the acquisition of Consolidated Thompson, $30.4

million and $38.3 million, respectively, of related debt issuance costs were recognized in *Interest expense* on the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011.

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The Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011 include incremental revenue and operating loss of $145.8 million and $7.2 million, respectively, related to the acquisition of Consolidated Thompson since the date of acquisition. The operating losses during the period include the impact of expensing an additional $48.4 million of stepped-up value of inventory due to purchase accounting through *Cost of goods sold and operating expenses*.

The following unaudited consolidated pro forma information summarizes the results of operations for the three and six months ended June 30, 2011 and 2010, as if the Consolidated Thompson acquisition and the related financing had been completed as of January 1, 2010. The pro forma information gives effect to actual operating results prior to the acquisition. The unaudited consolidated pro forma information does not purport to be indicative of the results that would have actually been obtained if the acquisition of Consolidated Thompson had occurred as of the beginning of the periods presented or that may be obtained in the future.

	(In Millions, Except Per Common Share)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues from product sales and services	$ 2,065.0	$ 1,219.9	$ 3,343.8	$ 1,947.4
Net income attributable to Cliffs shareholders	$ 417.0	$ 206.8	$ 808.7	$ 192.6
Earnings per common share attributable to Cliffs shareholders - Basic	$ 3.00	$ 1.53	$ 5.89	$ 1.42
Earnings per common share attributable to Cliffs shareholders - Diluted	$ 2.98	$ 1.52	$ 5.86	$ 1.42

The pro forma net income attributable to Cliffs shareholders was adjusted to exclude $60.3 million and $67.2 million, respectively, of Cliffs and Consolidated Thompson acquisition related costs and $48.4 million of non-recurring inventory purchase accounting adjustments incurred during the three and six months ended June 30, 2011.

NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS AND LIABILITIES

Goodwill

The following table summarizes changes in the carrying amount of goodwill allocated by reporting unit for the six months ended June 30, 2011 and the year ended December 31, 2010:

	(In Millions)											
	June 30, 2011						December 31, 2010 (1)					
	U.S. Iron Ore	Eastern Canadian Iron Ore	North American Coal	Asia Pacific Iron Ore	Other	Total	U.S. Iron Ore	Eastern Canadian Iron Ore	North American Coal	Asia Pacific Iron Ore	Other	Total
eginning alance	$ 2.0	$ 3.1	$ 27.9	$ 82.6	$ 80.9	$ 196.5	$ 2.0	$ -	$ -	$ 72.6	$ -	$ 74.6

rising in usiness ombinations	-	1,026.8	-	-	-	1,026.8	-	3.1	27.9	-	80.9	111.9
mpact of oreign urrency ranslation	-	-	-	4.5	-	4.5	-	-	-	10.0	-	10.0
Other	-	(0.4)	(0.1)	-	-	(0.5)	-	-	-	-	-	-
nding alance	$ 2.0	$ 1,029.5	$ 27.8	$ 87.1	$ 80.9	$ 1,227.3	$ 2.0	$ 3.1	$ 27.9	$ 82.6	$ 80.9	$ 196.5

(1) Represents a 12-month rollforward of our goodwill by reportable unit at December 31, 2010.

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The increase in the balance of *Goodwill* as of June 30, 2011 is due to the preliminary assignment of $1,026.8 million to *Goodwill* in the second quarter of 2011 based on the preliminary purchase price allocation for the acquisition of Consolidated Thompson. The balance of $1,227.3 million and $196.5 million at June 30, 2011 and December 31, 2010, respectively, is presented as *Goodwill* on the Statements of Unaudited Condensed Consolidated Financial Position. Refer to NOTE 5 ACQUISITIONS AND OTHER INVESTMENTS for additional information.

Goodwill is not subject to amortization and is tested for impairment annually or when events or circumstances indicate that impairment may have occurred.

Other Intangible Assets and Liabilities

Following is a summary of intangible assets and liabilities as of June 30, 2011 and December 31, 2010:

		(In Millions)					
		June 30, 2011			December 31, 2010		
	Classification	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite lived intangible assets:							
Permits	*Intangible assets, net*	$ 137.1	$ (20.3)	$ 116.8	$ 132.4	$ (16.3)	$ 116.1
Utility contracts	*Intangible assets, net*	54.7	(15.8)	38.9	54.7	(10.2)	44.5
Easements (1)	*Intangible assets, net*	-	-	-	11.7	(0.4)	11.3
Leases	*Intangible assets, net*	5.5	(2.9)	2.6	5.2	(2.9)	2.3
Unpatented technology	*Intangible assets, net*	4.0	(2.8)	1.2	4.0	(2.4)	1.6
Total intangible assets		$ 201.3	$ (41.8)	$ 159.5	$ 208.0	$ (32.2)	$ 175.8
Below-market sales contracts	*Other current liabilities*	$ (77.0)	$ 24.3	$ (52.7)	$ (77.0)	$ 19.9	$ (57.1)
Below-market sales contracts	*Below-Market Sales Contracts*	(252.3)	107.2	(145.1)	(252.3)	87.9	(164.4)
Total below-market sales contracts		$ (329.3)	$ 131.5	$ (197.8)	$ (329.3)	$ 107.8	$ (221.5)

(1) Upon the acquisition of Consolidated Thompson, this intangible asset is now eliminated through intercompany eliminations. The easement agreement is between Wabush and Consolidated Thompson.

The intangible assets are subject to periodic amortization on a straight-line basis over their estimated useful lives as follows:

Intangible Asset	Useful Life (years)
Permits	15 - 28
Utility contracts	5
Easements	30
Leases	1.5 - 4.5
Unpatented technology	5

Amortization expense relating to intangible assets was $4.7 million and $9.6 million, respectively, for the three and six months ended June 30, 2011, and is recognized in *Cost of goods sold and operating expenses* on the Statements of Unaudited Condensed Consolidated Operations. Amortization expense relating to intangible assets was $4.3 million and $8.3 million, respectively, for the comparable periods in 2010. The estimated amortization expense relating to intangible assets for the remainder of 2011 and each of the five succeeding fiscal years is as follows:

	(In Millions) Amount
Year Ending December 31	
2011 (remaining six months)	$ 9.6
2012	19.2
2013	18.3
2014	18.3
2015	6.4
2016	6.4
Total	$ 78.2

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The below-market sales contracts are classified as a liability and recognized over the remaining terms of the underlying contracts, which range from 3.5 to 8.5 years. For the three and six months ended June 30, 2011, we recognized $16.6 million and $23.7 million, respectively, in *Product revenues* related to the below-market sales contracts, compared with $11.8 million for the three and six months ended June 30, 2010. The following amounts will be recognized in earnings for the remainder of 2011 and each of the five succeeding fiscal years:

	(In Millions) Amount
Year Ending December 31	
2011 (remaining six months)	$ 34.6
2012	48.8
2013	45.3
2014	23.0
2015	23.0
2016	23.1
Total	$ 197.8

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following represents the assets and liabilities of the Company measured at fair value at June 30, 2011 and December 31, 2010:

	(In Millions) June 30, 2011			
Description	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash equivalents	$ 130.0	$ -	$ -	$ 130.0
Derivative assets	-	29.9 (1)	64.0	93.9
U.S. marketable securities	15.1	-	-	15.1
International marketable securities	41.8	-	-	41.8
Foreign exchange contracts	-	30.4	-	30.4
Total	$ 186.9	$ 60.3	$ 64.0	$ 311.2

(1) Derivative assets includes $14.1 million classified as *Accounts receivable* on the Statement of Unaudited Condensed Consolidated Financial Position as of June 30, 2011. Refer to NOTE 3 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES for further information.

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	(In Millions)			
	December 31, 2010			
Description	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash equivalents	$ 1,307.2	$ -	$ -	$ 1,307.2
Derivative assets	-	-	45.6	45.6
U.S. marketable securities	22.0	-	-	22.0
International marketable securities	63.9	-	-	63.9
Foreign exchange contracts	-	39.0	-	39.0
Total	$ 1,393.1	$ 39.0	$ 45.6	$ 1,477.7

We had no financial instruments measured at fair value that were in a liability position at June 30, 2011 or December 31, 2010.

Financial assets classified in Level 1 at June 30, 2011 and December 31, 2010 include money market funds and available-for-sale marketable securities. The valuation of these instruments is determined using a market approach, taking into account current interest rates, creditworthiness, and liquidity risks in relation to current market conditions, and is based upon unadjusted quoted prices for identical assets in active markets.

The valuation of financial assets and liabilities classified in Level 2 is determined using a market approach based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for substantially the full term of the financial instrument. Level 2 securities primarily include derivative financial instruments valued using financial models that use as their basis readily observable market parameters. At June 30, 2011 and December 31, 2010, such derivative financial instruments included our existing foreign currency exchange contracts. The fair value of the foreign currency exchange contracts is based on forward market prices and represents the estimated amount we would receive or pay to terminate these agreements at the reporting date, taking into account creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

The Level 2 derivative assets at June 30, 2011 also consist of freestanding derivatives related to certain supply agreements with our U.S. Iron Ore and Eastern Canadian Iron Ore customers. As a result of a recent shift in the industry toward shorter-term pricing arrangements that are linked to the spot market and elimination of the annual benchmark system that occurred in 2010, we have revised the terms of certain of our 2011 customer supply agreements and have recorded certain shipments made during the first six months of 2011 on a provisional basis until final settlement is reached. The pricing provisions are characterized as freestanding derivatives and are required to be accounted for separately once the product is shipped. The derivative instrument, which is settled and billed once final pricing settlement is reached, is marked to fair value as a revenue adjustment each reporting period. During the second quarter of 2011, we revised the inputs used to determine the fair value of these derivatives to include 2011 published pricing indices and settlements realized by other companies in the industry. Prior to this change, the fair value was primarily determined based on significant unobservable inputs to develop the forward price expectation of the final price settlement for 2011. Based on these changes to the determination of the fair value, we transferred $20 million of derivative assets from a Level 3 classification to a Level 2 classification within the fair value hierarchy during the second quarter of 2011. The fair value of our derivatives is determined using a market approach and takes into account current market conditions and other risks, including nonperformance risk.

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The derivative financial assets classified within Level 3 at June 30, 2011 and December 31, 2010 include a freestanding derivative instrument related to certain supply agreements with one of our U.S. Iron Ore customers. The agreements include provisions for supplemental revenue or refunds based on the customer s annual steel pricing at the time the product is consumed in the customer s blast furnaces. We account for this provision as a derivative instrument at the time of sale and mark this provision to fair value as a revenue adjustment each reporting period until the product is consumed and the amounts are settled. The fair value of the instrument is determined using a market approach based on an estimate of the annual realized price of hot rolled steel at the steelmaker s facilities, and takes into consideration current market conditions and nonperformance risk.

Substantially all of the financial assets and liabilities are carried at fair value or contracted amounts that approximate fair value. We had no financial assets or liabilities measured at fair value on a non-recurring basis at June 30, 2011 or December 31, 2010.

We recognize any transfers between levels as of the beginning of the reporting period, including both transfers into and out of levels. There were no transfers between Level 1 and Level 2 of the fair value hierarchy as of June 30, 2011. As noted above, there was a transfer from Level 3 to Level 2 as reflected in the table below. The following represents a reconciliation of the changes in fair value of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2011 and 2010.

	(In Millions) Derivative Assets			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Beginning balance	**$ 68.1**	$ 171.0	**$ 45.6**	$ 63.2
Total gains (losses)				
Included in earnings	**46.5**	437.7	**91.1**	799.8
Included in other comprehensive income	**-**	-	**-**	-
Settlements	**(30.6)**	(369.8)	**(52.7)**	(624.1)
Transfers out of Level 3	**(20.0)**	-	**(20.0)**	-
Ending balance - June 30	**$ 64.0**	$ 238.9	**$ 64.0**	$ 238.9
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses on assets and liabilities still held at the reporting date	**$ 46.5**	$ 400.9	**$ 91.1**	$ 639.8

Gains and losses included in earnings are reported in *Product revenues* on the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011 and 2010.

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The carrying amount and fair value of our long-term receivables and long-term debt at June 30, 2011 and December 31, 2010 were as follows:

	(In Millions)			
	June 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term receivables:				
Customer supplemental payments	$ 22.3	$ 19.9	$ 22.3	$ 19.5
ArcelorMittal USA - Ispat receivable	29.7	35.0	32.8	38.9
Other	8.7	8.7	8.1	8.1
Total long-term receivables (1)	$ 60.7	$ 63.6	$ 63.2	$ 66.5
Long-term debt:				
Term loan - $1.25 billion	$ 1,187.5	$ 1,187.5	$ -	$ -
Senior notes - $700 million	699.3	684.0	-	-
Senior notes - $1.3 billion	1,289.1	1,299.9	990.3	972.5
Senior notes - $400 million	397.9	430.2	397.8	422.8
Senior notes - $325 million	325.0	353.9	325.0	355.6
Customer borrowings	5.1	5.1	4.0	4.0
Total long-term debt	$ 3,903.9	$ 3,960.6	$ 1,717.1	$ 1,754.9

(1) Includes current portion.

The terms of one of our U.S. Iron Ore pellet supply agreements require supplemental payments to be paid by the customer during the period 2009 through 2013, with the option to defer a portion of the 2009 monthly amount up to $22.3 million in exchange for interest payments until the deferred amount is repaid in 2013. Interest is payable by the customer quarterly, and payments began in September 2009 at the higher of 9 percent or the prime rate plus 350 basis points. As of June 30, 2011, we have a receivable of $22.3 million recorded in *Other non-current assets* on the Statements of Unaudited Condensed Consolidated Financial Position reflecting the terms of this deferred payment arrangement. This compares with a receivable of $22.3 million recorded as of December 31, 2010. The fair value of the receivable of $19.9 million and $19.5 million at June 30, 2011 and December 31, 2010, respectively, is based on a discount rate of 3.8 percent, which represents the estimated credit-adjusted risk-free interest rate for the period the receivable is outstanding.

In 2002, we entered into an agreement with Ispat that restructured the ownership of the Empire mine and increased our ownership from 46.7 percent to 79 percent in exchange for the assumption of all mine liabilities. Under the terms of the agreement, we indemnified Ispat from obligations of Empire in exchange for certain future payments to Empire and to us by Ispat of $120 million, recorded at a present value of $29.7 million and $32.8 million at June 30, 2011 and December 31, 2010, respectively. The fair value of the receivable of $35.0 million and $38.9 million at June 30, 2011 and December 31, 2010, respectively, is based on a discount rate of 3.0 percent, which represents the estimated credit-adjusted risk-free interest rate for the period the receivable is outstanding.

The fair value of long-term debt was determined using quoted market prices or discounted cash flows based upon current borrowing rates. The term loan and revolving loan are variable rate interest debt and approximate fair value. See NOTE 8 DEBT AND CREDIT FACILITIES for further information.

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NOTE 8 DEBT AND CREDIT FACILITIES

The following represents a summary of our long-term debt as of June 30, 2011 and December 31, 2010:

($ in Millions)
June 30, 2011

Debt Instrument	Type	Average Annual Interest Rate	Final Maturity	Total Face Amount	Total Long-term Debt
$1.25 Billion Term Loan	Variable	2.052 %	2016	$ 1,250.0	$ 1,187.5 (6)
$700 Million 4.875% 2021 Senior Notes	Fixed	4.875 %	2021	700.0	699.3 (5)
$1.3 Billion Senior Notes:					
$500 Million 4.80% 2020 Senior Notes	Fixed	4.80 %	2020	500.0	499.0 (4)
$800 Million 6.25% 2040 Senior Notes	Fixed	6.25 %	2040	800.0	790.1 (3)
$400 Million 5.90% 2020 Senior Notes	Fixed	5.90 %	2020	400.0	397.9 (2)
$325 Million Private Placement Senior Notes:					
Series 2008A - Tranche A	Fixed	6.31 %	2013	270.0	270.0
Series 2008A - Tranche B	Fixed	6.59 %	2015	55.0	55.0
$600 Million Credit Facility:					
Revolving Loan	Variable	- %	2012	600.0	0.0 (1)
Total				$ 4,575.0	$ 3,898.8

December 31, 2010

Debt Instrument	Type	Average Annual Interest Rate	Final Maturity	Total Face Amount	Total Long-term Debt
$1 Billion Senior Notes:					
$500 Million 4.80% 2020 Senior Notes	Fixed	4.80 %	2020	$ 500.0	$ 499.0 (4)
$500 Million 6.25% 2040 Senior Notes	Fixed	6.25 %	2040	500.0	491.3 (3)
$400 Million 5.90% 2020 Senior Notes	Fixed	5.90 %	2020	400.0	397.8 (2)
$325 Million Private Placement Senior Notes:					
Series 2008A - Tranche A	Fixed	6.31 %	2013	270.0	270.0
Series 2008A - Tranche B	Fixed	6.59 %	2015	55.0	55.0
$600 Million Credit Facility:					
Revolving Loan	Variable	- %	2012	600.0	0.0 (1)
Total				$ 2,325.0	$ 1,713.1

(1) As of June 30, 2011 and December 31, 2010, no revolving loans were drawn under the credit facility; however, the principal amount of letter of credit obligations totaled $66.6 million and $64.7 million, respectively, reducing available borrowing capacity to $533.4 million and $535.3 million, respectively.

(2) As of June 30, 2011 and December 31, 2010, the $400 million 5.90 percent senior notes were recorded at a par value of $400 million less unamortized discounts of $2.1 million and $2.2 million, respectively, based on an imputed interest rate of 5.98 percent.

(3) As of June 30, 2011 and December 31, 2010, the $800 million and $500 million 6.25 percent senior notes were recorded at par values of $800 million and $500 million, respectively, less unamortized discounts of $9.9 million and $8.7 million, respectively, based on an imputed interest rate of 6.38 percent.

(4) As of June 30, 2011 and December 31, 2010, the $500 million 4.80 percent senior notes were recorded at a par value of $500 million less unamortized discounts of $1.0 million and $1.0 million, respectively, based on an imputed interest rate of 4.83 percent.

(5) As of June 30, 2011, the $700 million 4.875 percent senior notes were recorded at a par value of $700 million less unamortized discounts of $0.7 million, based on an imputed interest rate of 4.89 percent.

(6) As of June 30, 2011, $62.5 of the term loan was classified as *Current portion of term loan* based upon the principal payment terms of the arrangement requiring principal payments on each three-month anniversary following the funding of the term loan.

The terms of the private placement senior notes and the credit facilities each contain customary covenants that require compliance with certain financial covenants based on: (1) debt to earnings ratio and (2) interest coverage ratio. As of June 30, 2011 and December 31, 2010, we were in compliance with the financial covenants related to both the private placement senior notes and the credit facilities. The terms of the senior notes due in 2020, 2021 and 2040 contain certain customary covenants; however, there are no financial covenants.

$1 Billion Senior Notes Offering

On March 23, 2011 and April 1, 2011, respectively, we completed a $1 billion public offering of senior notes consisting of two tranches: a 10-year tranche of $700 million aggregate principal amount at 4.875 percent senior notes due April 1, 2021, and an additional issuance of $300 million aggregate principal amount of our 6.25 percent senior notes due October 1, 2040, of which $500 million aggregate principal amount was previously issued during September 2010. Interest is fixed and is payable on April 1 and October 1 of each year, beginning on October 1, 2011, for both series of senior notes until maturity. The senior notes are unsecured obligations and rank equally with all our other existing and future unsecured and unsubordinated indebtedness. The net proceeds from the senior notes offering were used to fund a portion of the purchase price for the acquisition of Consolidated Thompson and to pay the related fees and expenses.

The senior notes may be redeemed any time at our option at a redemption price equal to the greater of (1) 100 percent of the principal amount of the notes to be redeemed or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed, discounted to the redemption date on a semi-annual basis at the treasury rate plus 25 basis points with respect to the 2021 senior notes and 40 basis points with respect to the 2040 senior notes, plus, in each case, accrued and unpaid interest to the date of redemption. However, if the 2021 senior notes are redeemed on or after the date that is three months prior to their maturity date, the 2021 senior notes will be redeemed at a redemption price equal to 100 percent of the principal amount of the notes to be redeemed plus accrued and unpaid interest to the date of redemption.

In addition, if a change of control triggering event occurs with respect to the senior notes, we will be required to offer to purchase the notes of the applicable series at a purchase price equal to 101 percent of the principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

Bridge Credit Agreement

On March 4, 2011, we entered into an unsecured bridge credit agreement with a syndicate of banks in order to provide a portion of the financing for the acquisition of Consolidated Thompson. The bridge credit agreement, referred to as the bridge credit facility, had an original maturity date of May 10, 2012. On May 10, 2011, we borrowed $750 million under the bridge credit facility to fund a portion of the cash required upon the consummation of the acquisition of Consolidated Thompson. The borrowings under the bridge credit facility were repaid using a portion of the net proceeds obtained from the public offering of our common shares that was completed on June 13, 2011, and the bridge credit facility was terminated. The borrowings under the bridge credit facility bore interest at a floating rate based upon a base rate or the LIBOR rate plus a margin determined by our credit rating and the length of time the borrowings were outstanding. The weighted average annual interest rate under the bridge credit facility during the time the borrowings were outstanding was 2.56 percent. Refer to NOTE 14   CAPITAL STOCK for additional information on the public offering of our common shares.

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Term Loan

On March 4, 2011, we also entered into an unsecured term loan agreement with a syndicate of banks in order to provide a portion of the financing for the acquisition of Consolidated Thompson. The term loan agreement provides for a $1,250 million term loan. The term loan has a maturity date of five years from the date of funding and requires principal payments on each three-month anniversary of the date following the funding. On May 10, 2011, we borrowed $1,250 million under the term credit facility to fund a portion of the cash required upon the consummation of the acquisition of Consolidated Thompson. Borrowings under the term loan bear interest at a floating rate based upon a base rate or the LIBOR rate plus a margin depending on the leverage ratio. The weighted average annual interest rate under the term loan was 2.05 percent for the period of May 10, 2011 through June 30, 2011.

Short-term Facilities

On March 31, 2010, Asia Pacific Iron Ore entered into a A$40 million ($42.9 million) bank contingent instrument facility and cash advance facility to replace the then existing A$40 million multi-option facility, which was extended through June 30, 2011 and subsequently renewed until June 30, 2012. The facility, which is renewable annually at the bank s discretion, provides A$40 million in credit for contingent instruments, such as performance bonds and the ability to request a cash advance facility to be provided at the discretion of the bank. As of June 30, 2011, the outstanding bank guarantees under this facility totaled A$24.3 million ($26.1 million), thereby reducing borrowing capacity to A$15.7 million ($16.8 million). We have provided a guarantee of the facility, along with certain of our Australian subsidiaries. The facility agreement contains customary covenants that require compliance with certain financial covenants: (1) debt to earnings ratio and (2) interest coverage ratio, both based on the financial performance of the Company. As of June 30, 2011, we were in compliance with these financial covenants.

Consolidated Thompson Senior Secured Notes

The Consolidated Thompson senior secured notes were included among the liabilities assumed in the acquisition of Consolidated Thompson. On April 13, 2011, we purchased the outstanding Consolidated Thompson senior secured notes directly from the note holders for $125 million, including accrued and unpaid interest. The senior secured notes have a face amount of $100 million, a stated interest rate of 8.5 percent and were scheduled to mature in 2017. The transaction was initially recorded as an investment in Consolidated Thompson senior secured notes during the second quarter of 2011; however, upon the completion of the acquisition of Consolidated Thompson, and consolidation into our financial statements the Consolidated Thompson senior secured notes and our investment in the notes have been eliminated as intercompany transactions. Refer to NOTE 5 ACQUISITIONS AND OTHER INVESTMENTS for additional information.

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Consolidated Thompson Convertible Debentures

Included among the liabilities assumed in the acquisition of Consolidated Thompson were the Consolidated Thompson convertible debentures that as a result of the acquisition were able to be converted by their holders into cash in accordance with the cash change of control provision of the convertible debenture indenture. The convertible debentures allowed the debenture holders to convert at a premium conversion ratio beginning on the 10th trading day prior to the closing of the acquisition and ending on the 30th day subsequent to the mailing of an offer to purchase the convertible debentures, which was the cash change of control conversion period as defined by the convertible debenture indenture. On May 12, 2011, following the closing of the acquisition, Consolidated Thompson commenced the offer to purchase all of the outstanding convertible debentures in accordance with its obligations under the convertible debenture indenture by mailing to the debenture holders such offer to purchase. Additionally, on May 13, 2011, Consolidated Thompson gave notice that it was exercising its right to redeem any convertible debentures that remained outstanding on June 13, 2011, after giving effect to any conversions that occurred during the cash change of control conversion period. As previously disclosed, Consolidated Thompson received sufficient consents from the debenture holders, pursuant to a consent solicitation, to amend the convertible debenture indenture to give Consolidated Thompson such a redemption right. As a result of these events, no convertible debentures remained outstanding as of June 30, 2011. Refer to NOTE 5 ACQUISITIONS AND OTHER INVESTMENTS for additional information.

Consolidated Thompson Letters of Credit

In conjunction with our acquisition of Consolidated Thompson, we issued standby letters of credit with certain financial institutions in order to support Bloom Lake obligations. As of June 30, 2011, these letter of credit obligations totaled $48.7 million. We issued additional standby letters of credit of $14.3 million to support Bloom Lake obligations in July 2011.

Debt Maturities

Maturities of debt instruments based on the principal amounts outstanding at June 30, 2011, total $31 million in 2011, $94 million in 2012, $395 million in 2013, $156 million in 2014, $524 million in 2015, $375 million in 2016 and $2.4 billion thereafter.

Refer to NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS for further information.

NOTE 9 LEASE OBLIGATIONS

We lease certain mining, production and other equipment under operating and capital leases. The leases are for varying lengths, generally at market interest rates and contain purchase and/or renewal options at the end of the terms. Our operating lease expense was $7.9 million and $13.7 million, respectively, for the three and six months ended June 30, 2011, compared with $6.0 million and $11.9 million, respectively, for the same periods in 2010.

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Future minimum payments under capital leases and non-cancellable operating leases at June 30, 2011 are as follows:

	(In Millions)	
	Capital Leases	Operating Leases
2011 (July 1 - December 31)	$ 33.2	$ 22.1
2012	65.5	41.3
2013	57.3	39.2
2014	52.3	30.0
2015	41.0	12.5
2016 and thereafter	104.3	73.8
Total minimum lease payments	353.6	$ 218.9
Amounts representing interest	76.3	
Present value of net minimum lease payments	$ 277.3 (1)	

(1) The total is comprised of $50.8 million and $226.6 million classified as *Other current liabilities* and *Other liabilities*, respectively, on the Statements of Unaudited Condensed Consolidated Financial Position at June 30, 2011.

NOTE 10 ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS

We had environmental and mine closure liabilities of $221.8 million and $199.1 million at June 30, 2011 and December 31, 2010, respectively. The following is a summary of the obligations as of June 30, 2011 and December 31, 2010:

	(In Millions)	
	June 30, 2011	December 31, 2010
Environmental	$ 13.7	$ 13.7
Mine closure		
LTVSMC	17.6	17.1
Operating mines:		
U.S. Iron Ore	65.9	62.7
Eastern Canadian Iron Ore	66.2	49.3
North American Coal	35.0	34.7
Asia Pacific Iron Ore	16.7	15.4
Other	6.7	6.2
Total mine closure	208.1	185.4
Total environmental and mine closure obligations	221.8	199.1
Less current portion	14.3	14.2
Long-term environmental and mine closure obligations	$ 207.5	$ 184.9

Mine Closure

Our mine closure obligations are for our four consolidated U.S. operating iron ore mines, our two Eastern Canadian operating iron ore mines, our six operating North American coal mines, our Asia Pacific operating iron ore mines, the coal mine at Sonoma and a closed operation formerly known as LTVSMC.

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The accrued closure obligation for our active mining operations provides for contractual and legal obligations associated with the eventual closure of the mining operations. The accretion of the liability and amortization of the related asset is recognized over the estimated mine lives for each location. The following represents a rollforward of our asset retirement obligation liability related to our active mining locations for the six months ended June 30, 2011 and the year ended December 31, 2010:

	(In Millions)	
	June 30, 2011	December 31, 2010 (1)
Asset retirement obligation at beginning of period	$ 168.3	$ 103.9
Accretion expense	7.7	13.1
Exchange rate changes	1.2	2.5
Revision in estimated cash flows	-	1.0
Payments	(0.7)	(8.4)
Acquired through business combinations	14.0	56.2
Asset retirement obligation at end of period	$ 190.5	$ 168.3

(1) Represents a 12-month rollforward of our asset retirement obligation at December 31, 2010.

NOTE 11 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The following are the components of defined benefit pension and OPEB expense for the three and six months ended June 30, 2011 and 2010:

Defined Benefit Pension Expense

	(In Millions)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Service cost	$ 5.2	$ 4.6	$ 11.0	$ 9.0
Interest cost	12.2	13.1	25.8	25.6
Expected return on plan assets	(13.7)	(13.5)	(29.2)	(26.1)
Amortization:				
Prior service costs	1.0	1.0	2.2	2.1
Net actuarial losses	4.8	6.0	10.0	11.9
Net periodic benefit cost	$ 9.5	$ 11.2	$ 19.8	$ 22.5

Other Postretirement Benefits Expense

	(In Millions)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Service cost	$ 2.3	$ 1.6	$ 4.7	$ 3.2
Interest cost	5.3	5.5	11.2	10.7

Expected return on plan assets	(3.7)	(3.3)	(8.0)	(6.5)
Amortization:				
Prior service costs	0.2	0.5	0.8	0.9
Net actuarial losses	2.9	1.7	5.8	3.4
Net periodic benefit cost	$ 7.0	$ 6.0	$ 14.5	$ 11.7

We made pension contributions of $27.3 million and $11.7 million for the six months ended June 30, 2011 and 2010, respectively. OPEB contributions were $21.9 million and $17.4 million for the six months ended June 30, 2011 and 2010, respectively.

NOTE 12   STOCK COMPENSATION PLANS

Employees   Plans

On March 8, 2011, the Compensation and Organization Committee (Committee   ) of the Board of Directors approved a grant under our shareholder approved ICE Plan for the performance period 2011-2013. A total of 256,100 shares were granted under the award, consisting of 188,480 performance shares and 67,620 restricted share units.

For the outstanding ICE Plan year agreements, each performance share, if earned, entitles the holder to receive a number of common shares within the range between a threshold and maximum number of our common shares, with the actual number of common shares earned dependent upon whether the Company achieves certain objectives and performance goals as established by the Committee. The performance share grants vest over a period of three years and are intended to be paid out in common shares. Performance is measured on the basis of two factors: 1) relative TSR for the period, as measured against a predetermined peer group of mining and metals companies, and 2) three-year cumulative free cash flow. The final payout for the 2011 to 2013 performance period varies from zero to 200 percent of the original grant compared to prior years where the maximum payout was 150 percent. The restricted share units are subject to continued employment, are retention based, will vest at the end of the performance period for the performance shares, and are payable in common shares at a time determined by the Committee at its discretion.

Upon the occurrence of a change in control, all performance shares and restricted share units granted to a participant will vest and become nonforfeitable and will be paid out in cash.

Determination of Fair Value

The fair value of each performance share grant is estimated on the date of grant using a Monte Carlo simulation to forecast relative TSR performance. A correlation matrix of historic and projected stock prices was developed for both the Company and its predetermined peer group of mining and metals companies. The fair value assumes that performance goals will be achieved.

The expected term of the grant represents the time from the grant date to the end of the service period. We estimated the volatility of our common shares and that of the peer group of mining and metals companies using daily price intervals for all companies. The risk-free interest rate is the rate at the grant date on zero-coupon government bonds, with a term commensurate with the remaining life of the performance plans.

The following assumptions were utilized to estimate the fair value for the 2011 performance share grants:

Grant Date	Grant Date Market Price	Average Expected Term (Years)	Expected Volatility	Risk-Free Interest Rate	Dividend Yield	Fair Value	Fair Value (Percent of Grant Date Market Price)
March 8, 2011	$ 96.70	2.81	94.4%	1.17%	0.58%	$ 77.90	80.60%

The fair value of the restricted share units is determined based on the closing price of the Company   s common shares on the grant date. The restricted share units granted under the ICE Plan vest over a period of three years.

NOTE 13 INCOME TAXES

Our tax provision for the three and six months ended June 30, 2011 was $151.9 million and $293.9 million, respectively. Our tax provision for the same periods ended June 30, 2010 was $99.3 million and $165.7 million, respectively. The effective tax rate for the first six months of 2011 is approximately 25.5 percent, while the effective tax rate for the first six months of 2010 was 33.2 percent. The difference in the effective rate from the prior year is primarily due to the impact of the tax law change and valuation allowances that occurred in 2010 and the impact of higher pre-tax book income in 2011 over 2010 with similar book to tax differences. Our 2011 expected effective tax rate before discrete items for the full year is approximately 26.4 percent, which reflects benefits from deductions for percentage depletion in excess of cost depletion related to U.S. operations, interest deductions, nontaxable hedging income and benefits derived from operations outside the U.S., which are taxed at rates lower than the U.S. statutory rate of 35 percent.

As of June 30, 2011, our valuation allowance against certain deferred tax assets increased by $11.1 million from December 31, 2010. This increase primarily relates to ordinary losses of certain foreign operations for which future utilization is currently uncertain.

As of June 30, 2011, cumulative undistributed earnings of foreign subsidiaries included in consolidated retained earnings continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practical to estimate the amount of income taxes that would have to be provided if we concluded that such earnings will be remitted in the future.

At January 1, 2011, we had $79.8 million of unrecognized tax benefits recorded in *Other liabilities* on the Statements of Consolidated Financial Position. If the $79.8 million were recognized, $79.1 million would impact the effective tax rate. As of June 30, 2011, it is reasonably possible that unrecognized tax benefits will decrease in the range of $40 million to $50 million within the next 12 months due to expected settlements with the taxing authorities or expiration of the statute of limitations. During the three and six months ended June 30, 2011, we accrued an additional $1.9 million and $2.5 million, respectively, of interest relating to the unrecognized tax benefits. Interest accrued for the same periods ended June 30, 2010 and was $0.7 million and $1.3 million, respectively.

Tax years that remain subject to examination are years 2007 and forward for the United States, 1993 and forward for Canada, and 1994 and forward for Australia.

NOTE 14 CAPITAL STOCK

Public Offering

On June 13, 2011, we completed a public offering of our common shares. The total number of shares sold was 10.35 million, comprised of the 9.0 million share offering and the exercise of an underwriters over-allotment option to purchase an additional 1.35 million shares. The offering resulted in an increase in the number of our common shares issued and outstanding as of June 30, 2011. We received net proceeds of approximately $853.7 million at a sales price to the public of $85.63 per share.

Dividends

On May 11, 2010, our Board of Directors increased our quarterly common share dividend from $0.0875 to $0.14 per share. The increased cash dividend was paid on June 1, 2010, September 1, 2010, and December 1, 2010 to shareholders on record as of May 14, 2010, August 13, 2010, and November 19, 2010, respectively. In addition, the increased cash dividend was paid on March 1, 2011 and June 1, 2011 to shareholders on record as of February 15, 2011 and April 29, 2011, respectively. On July 12, 2011, our Board of Directors increased the quarterly common share dividend by 100 percent to $0.28 per share. The increased cash dividend will be payable on September 1, 2011 to shareholders on record as of the close of business on August 15, 2011.

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Amendment to the Second Amended Articles of Incorporation

On May 25, 2011, our shareholders approved an amendment to our Second Amended Articles of Incorporation to increase the number of authorized Common Shares from 224,000,000 to 400,000,000, which resulted in an increase in the total number of authorized shares from 231,000,000 to 407,000,000. The total number of authorized shares includes 3,000,000 and 4,000,000 shares of Class A and Class B, respectively, of unauthorized and unissued preferred stock.

NOTE 15 SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

The following table reflects the changes in shareholders equity attributable to both Cliffs and the noncontrolling interests primarily related to Bloom Lake, Tilden, Empire and renewaFUEL, of which Cliffs owns 75 percent, 85 percent, 79 percent and 95 percent, respectively, for the six months ended June 30, 2011.

		(In Millions)	
	Cliffs Shareholders Equity	Non-Controlling Interest	Total Equity
December 31, 2010	$ 3,845.9	$ (7.2)	$ 3,838.7
Comprehensive income			
Net income	831.1	18.2	849.3
Other comprehensive income	50.1	0.9	51.0
Total comprehensive income	881.2	19.1	900.3
Equity offering	853.7	-	853.7
Purchase of additional noncontrolling interest	0.3	-	0.3
Stock and other incentive plans	3.1	-	3.1
Common stock dividends	(38.0)	-	(38.0)
Purchase of subsidiary shares from noncontrolling interest	-	4.5	4.5
Undistributed gains to noncontrolling interest	-	9.6	9.6
Capital contribution by noncontrolling interest to subsidiary	-	0.2	0.2
Acquisition of controlling interest	-	947.6	947.6
June 30, 2011	$ 5,546.2	$ 973.8	$ 6,520.0

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The following are the components of comprehensive income for the three and six months ended June 30, 2011 and 2010:

	(In Millions)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income attributable to Cliffs shareholders	$ 407.7	$ 260.7	$ 831.1	$ 338.1
Other comprehensive income:				
Unrealized net loss on marketable securities - net of tax	(19.0)	(4.3)	(19.2)	(14.2)
Foreign currency translation	42.9	(73.4)	57.5	(44.3)
Amortization of net periodic benefit cost - net of tax	0.4	4.4	8.6	43.0
Reclassification of net gains on derivative financial instruments into net income	(1.3)	(1.6)	(1.7)	(3.2)
Unrealized gain on derivative financial instruments	3.0	-	4.9	-
Total other comprehensive income	26.0	(74.9)	50.1	(18.7)
Total comprehensive income	$ 433.7	$ 185.8	$ 881.2	$ 319.4

NOTE 16 EARNINGS PER SHARE

A summary of the calculation of earnings per common share on a basic and diluted basis follows:

	(In Millions)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income attributable to Cliffs shareholders	$ 407.7	$ 260.7	$ 831.1	$ 338.1
Weighted average number of shares:				
Basic	139.0	135.3	137.2	135.2
Employee stock plans	0.8	0.8	0.8	0.8
Diluted	139.8	136.1	138.0	136.0
Earnings per common share attributable to Cliffs shareholders - Basic	$ 2.93	$ 1.93	$ 6.06	$ 2.50
Earnings per common share attributable to Cliffs shareholders - Diluted	$ 2.92	$ 1.92	$ 6.02	$ 2.49

NOTE 17 COMMITMENTS AND CONTINGENCIES

Purchase Commitments

In May 2011, we incurred capital commitments related to an expansion of our Bloom Lake mine. As of June 30, 2011, the project has been approved for capital investments of approximately $615 million, of which $150 million has been committed. The expansion is part of ramping up production capacity from 8.0 million metric tons of iron ore concentrate per year to 16.0 million metric tons of iron ore concentrate per year. As of June 30, 2011, capital expenditures related to this commitment were approximately $52 million. Of the committed capital, expenditures of approximately $98 million are expected to be made during the remainder of 2011.

As a result of the significant tornado damage to the above-ground operations at our Oak Grove mine during the second quarter of 2011, we incurred capital commitments to repair the damage done to the preparation plant and the overland conveyor system. As of June 30, 2011, the project requires a capital investment of approximately $55 million, of which approximately $31 million has been committed. As of June 30, 2011, $6 million in capital expenditures had been expended related to this commitment. Of the committed capital, expenditures of $25 million are scheduled to be made during the remainder of 2011.

In March 2011, we incurred capital commitments related to bringing Lower War Eagle, a high volatile metallurgical coal mine in West Virginia, into production. As of June 30, 2011, the project has been approved for capital investments of approximately $49 million, of which $31 million has been committed. As of June 30, 2011, capital expenditures related to this commitment were approximately $8 million. Of the committed capital, expenditures of approximately $23 million are scheduled to be made during the remainder of 2011.

In 2010, our Board of Directors approved a capital project at our Koolyanobbing Operation in Western Australia. The project is expected to increase the production capacity at the Koolyanobbing Operation to approximately 11 million metric tons annually. The improvements consist of enhancements to the existing rail infrastructure and upgrades to various other existing operational constraints. The expansion project requires a capital investment of approximately $280 million, of which approximately $241 million has been committed, that will be required to meet the timing of the proposed expansion. As of June 30, 2011, $90 million in capital expenditures had been expended related to this commitment. Of the committed capital, expenditures of $130 million and $21 million are scheduled to be made during the remainder of 2011 and in 2012, respectively.

We incurred capital commitments related to an expansion project at our Empire and Tilden mines in Michigan s Upper Peninsula in 2010. The expansion project requires a capital investment of approximately $325 million, of which $170 million has been committed as of June 30, 2011, and is expected to allow the Empire mine to produce at three million tons annually through 2014 and increase Tilden mine production by an additional two million tons annually. As of June 30, 2011, capital expenditures related to this commitment were approximately $103 million. Of the committed capital, expenditures of approximately $50 million and $17 million are scheduled to be made during the remainder of 2011 and in 2012, respectively.

In 2010, we incurred a capital commitment for the construction of a new portal closer to the coal face at our Oak Grove mine in Alabama. The portal requires a capital investment of approximately $31 million, of which $31 million has been committed, and will significantly decrease transit time to and from the coal face, which is expected to result in, among other things, improved safety, greater operational efficiency, increased productivity, lower employment costs and improved employee morale. As of June 30, 2011, capital expenditures related to this commitment were approximately $20 million. Expenditures of $11 million are scheduled to be made throughout the remainder of 2011.

In 2008, we incurred a capital commitment for the purchase of a new longwall plow system for our Pinnacle mine in West Virginia. The system, which requires a capital investment of approximately $90 million, has replaced the previously existing longwall plow system in an effort to reduce maintenance costs and increase production at the mine. As of June 30, 2011, capital expenditures related to this commitment were approximately $89 million. Expenditures of approximately $2 million are scheduled to be made throughout the remainder of 2011.

Contingencies

Litigation

We are currently a party to various claims and legal proceedings incidental to our operations. If management believes that a loss arising from these matters is probable and can reasonably be estimated, we record the amount of the loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on our financial position or results of operations. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or an injunction. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the financial position and results of operations of the period in which the ruling occurs, or future periods. However, we believe that any pending litigation will not result in a material liability in relation to our consolidated financial statements.

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NOTE 18 CASH FLOW INFORMATION

A reconciliation of capital additions to cash paid for capital expenditures for the six months ended June 30, 2011 and 2010 is as follows:

	(In Millions) Six Months Ended June 30,	
	2011	2010
Capital additions	$ 297.4	$ 70.7
Cash paid for capital expenditures	244.5	63.0
Difference	$ 52.9	$ 7.7
Non-cash accruals	$ 52.9	$ 7.7
Capital leases	-	-
Total	$ 52.9	$ 7.7

Non-cash investing activities for the six months ended June 30, 2010 include the issuance of 4.2 million of our common shares valued at $173.1 million as part of the purchase consideration for the acquisition of the remaining interest in Freewest. Non-cash items for the six months ended June 30, 2010 also include gains of $38.6 million related to the remeasurement of our previous ownership interest in Freewest and Wabush held prior to each business acquisition. Refer to NOTE 5 ACQUISITIONS AND OTHER INVESTMENTS for further information.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and other factors that may affect our future results. We believe it is important to read our MD&A in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010 as well as other publicly available information.

Overview

Cliffs Natural Resources Inc. traces its corporate history back to 1847. Today, we are an international mining and natural resources company. A member of the S&P 500 Index, we are the largest producer of iron ore pellets and a significant producer of concentrate in North America, a major supplier of direct-shipping lump and fines iron ore out of Australia, and a significant producer of metallurgical coal. Our Company s operations are organized according to product category and geographic location: U.S. Iron Ore; Eastern Canadian Iron Ore; North American Coal; Asia Pacific Iron Ore; Asia Pacific Coal; Latin American Iron Ore; Alternative Energies; Ferroalloys; and our Global Exploration Group.

Over recent years, we have been executing a strategy designed to achieve scale in the mining industry and focused on serving the world s largest and fastest growing steel markets. In the U.S., we operate five iron ore mines in Michigan and Minnesota, five metallurgical coal mines located in West Virginia and Alabama and one thermal coal mine located in West Virginia. We also operate two iron ore mines in Eastern Canada that provide iron ore primarily to the seaborne market to Asian steel producers. Our Asia Pacific operations are comprised of two iron ore mining complexes in Western Australia, serving the Asian iron ore markets with direct-shipping fines and lump ore, and a 45 percent economic interest in a coking and thermal coal mine located in Queensland, Australia. In Latin America, we have a 30 percent interest in Amapá, a Brazilian iron ore operation, and in Ontario, Canada, we have acquired chromite properties. Our operations also include our 95 percent controlling interest in renewaFUEL located in Michigan. In addition, our Global Exploration Group is focused on early involvement in exploration activities to identify new world-class projects for future development or projects that add significant value to existing operations.

The strengthening recovery and improving outlook for 2010 was characterized by increased steel production, higher demand and rising prices, all of which have continued into 2011. Global crude steel production, a significant driver of our business, was up approximately seven percent from the comparable period in 2010 with even greater production increases in some areas, including China which increased nine percent. Steel production in North America also remained stable, increasing five percent in the first six months of 2011 from the comparable period in 2010.

Our consolidated revenues for the three and six months ended June 30, 2011 increased to $1.8 billion and $3.0 billion, respectively, with net income per diluted share of $2.92 and $6.02, respectively. This compares with revenues of $1.2 billion and $1.9 billion, respectively, and net income per diluted share of $1.92 and $2.49, respectively, for the comparable periods in 2010. Based upon the recent shift in the industry toward shorter-term pricing arrangements linked to the spot market and away from the annual international benchmark pricing mechanism historically referenced in our customer supply agreements, pricing has continued to increase through the first half of 2011 from the comparable period in 2010. We have finalized short-term pricing arrangements with our Asia Pacific Iron Ore customers. This change in pricing has impacted certain of our U.S. Iron Ore customers supply agreements for the 2011 contract year, and in some cases we have revised the terms of such agreements to incorporate changes to historical pricing mechanisms. In addition, in April 2011 we reached a negotiated settlement with ArcelorMittal with respect to our previously disclosed arbitrations and litigation resulting in additional revenue recorded in the first half of 2011. Revenues during the first half of 2011 were also impacted by higher iron ore sales volumes in Eastern Canada and higher metallurgical and thermal coal sales volumes in the U.S. that were made available through our acquisition of Consolidated Thompson and CLCC during the second quarter of 2011 and the third quarter of 2010, respectively. In Asia Pacific, the demand for steelmaking raw materials remained strong throughout the first six months of 2011 primarily led by demand from China.

We also continued to align our balance sheet and enhance our financial flexibility to be consistent with our long-term financial growth goals and objectives, including the completion of a public offering of senior notes in the aggregate principal amount of $1 billion and a $1.25 billion five-year term loan. The senior notes offering consisted of a $700 million 10-year tranche and a $300 million 30-year tranche completed in March and April 2011, respectively. The net proceeds from the senior notes offering and the term loan have been used to fund a portion of the purchase price for the acquisition of Consolidated Thompson and to pay the related fees and expenses. We completed a public offering of 10.35 million of our common shares in June 2011. A portion of the net proceeds were used to repay the $750 million of borrowings under the bridge credit facility, with the remainder of the net proceeds to be used for general corporate purposes.

Growth Strategy and Strategic Transactions

In 2011, we expect to continue to increase our operating scale and presence as an international mining and natural resources company by maintaining our focus on integration and execution. Our strategy includes the continuing integration of our acquisition of Consolidated Thompson, which was acquired on May 12, 2011.

The acquisition reflects our strategy to build scale by owning expandable and exportable steelmaking raw material assets serving international markets. Consolidated Thompson is a Canadian mining company producing iron ore of high-quality concentrate. Consolidated Thompson operates an iron ore mine and processing facility near Bloom Lake in Quebec, Canada. WISCO is a twenty-five percent equity holder in Bloom Lake. Bloom Lake is currently ramping up towards an initial production rate of 8.0 million metric tons of iron ore concentrate per year. Consolidated Thompson also owns two additional development properties, Lamêlée and Peppler Lake, in Quebec. All three of these properties are in proximity to our existing Canadian operations and will allow us to leverage our port facilities and supply this iron ore to the seaborne market. The acquisition is also expected to further diversify our existing customer base.

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In addition to the integration of Consolidated Thompson, we have a number of capital projects underway in all of our business segments. We believe these projects will continue to improve our operational performance, diversify our customer base, extend the reserve life of our portfolio of assets and facilitate new exploration activities, all of which are necessary to sustain continued growth. Throughout 2011, we will also reinforce our recently announced global reorganization, as our leadership moves to an integrated global management structure.

We also expect to achieve growth through early involvement in exploration and development activities by partnering with junior mining companies, which provide us low-cost entry points for potentially significant reserve additions.

Segments

As a result of the acquisition of Consolidated Thompson, we have revised the number of our operating and reportable segments as determined under ASC 280. Our Company s primary operations are organized and managed according to product category and geographic location and now include: U.S. Iron Ore, Eastern Canadian Iron Ore, North American Coal, Asia Pacific Iron Ore, Asia Pacific Coal, Latin American Iron Ore, Alternative Energies, Ferroalloys and our Global Exploration Group. Our historical presentation of segment information consisted of three reportable segments: North American Iron Ore, North American Coal and Asia Pacific Iron Ore. Our restated presentation consists of four reportable segments: U.S. Iron Ore, Eastern Canadian Iron Ore, North American Coal and Asia Pacific Iron Ore. The amounts disclosed in NOTE 2 SEGMENT REPORTING reflects this restatement.

Results of Operations Consolidated

The following is a summary of our consolidated results of operations for the three and six months ended June 30, 2011 and 2010:

	(In Millions) Three Months Ended June 30,			(In Millions) Six Months Ended June 30,		
	2011	2010	Variance Favorable/ (Unfavorable)	2011	2010	Variance Favorable/ (Unfavorable)
Revenues from product sales and services	$ 1,805.8	$ 1,184.3	$ 621.5	$ 2,989.0	$ 1,912.0	$ 1,077.0
Cost of goods sold and operating expenses	(1,075.0)	(769.6)	(305.4)	(1,659.5)	(1,347.3)	(312.2)
Sales Margin	$ 730.8	$ 414.7	$ 316.1	$ 1,329.5	$ 564.7	$ 764.8
Sales Margin %	40.5%	35.0%	5.5%	44.5%	29.5%	14.9%

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Revenue from Product Sales and Services

Sales revenue for the three and six months ended June 30, 2011 increased $621.5 million and $1,077.0 million, respectively, over the comparable periods in 2010. The increase in sales revenue was primarily due to higher pricing related to our Asia Pacific Iron Ore and U.S. Iron Ore business operations. The recent shift in the industry toward shorter-term pricing arrangements that are linked to the spot market and elimination of the annual benchmark system has caused us to reassess and, in some cases, renegotiate the terms of certain of our supply agreements, primarily with our U.S. Iron Ore and Asia Pacific Iron Ore customers. We have renegotiated the terms of our supply agreements with our Chinese and Japanese Asia Pacific Iron Ore customers moving to shorter-term pricing mechanisms of various durations based on the average daily spot prices, with certain pricing mechanisms that have a duration of up to a quarter. The increase in our realized price during the first half of 2011 was on average a 59.9 percent and 46.7 percent increase for lump and fines, respectively, over the comparable period in 2010. This change in pricing has impacted certain of our U.S. Iron Ore customers supply agreements for the 2011 contract year, and in some cases we have revised the terms of such agreements to incorporate changes to historical pricing mechanisms. Our realized price during the first half of 2011 was an average increase of 60 percent over the comparable period in 2010, including the impact of $23.4 million related to the finalization of pricing on sales for Algoma s 2010 nomination that occurred during the first half of 2011. In April 2011, we reached a negotiated settlement with ArcelorMittal with respect to our previously disclosed arbitrations and litigation regarding price re-opener entitlements for 2009 and 2010 and pellet nominations for 2010 and 2011. The settlement included a pricing true-up for pellet volumes delivered to certain ArcelorMittal steelmaking facilities in North America during both 2009 and 2010 and resulted in an additional $201.5 million of revenue during the first half of 2011.

Higher sales volumes at our Eastern Canadian Iron Ore and North American Coal operating segments also contributed to the increase in our consolidated revenue for the first half of 2011. Compared to the same period in 2010, sales volumes increased 85 percent at Eastern Canadian Iron Ore in the first half of 2011 due to increased sales of iron ore made available through our acquisition of Consolidated Thompson during the second quarter of 2011. In addition, sales volumes increased 83 percent at North American Coal in the first half of 2011 due to increased sales of metallurgical and thermal coal made available through our acquisition of CLCC during the third quarter of 2010. These increases in sales volume were partially offset by an 11 percent decrease in sales volume at U.S. Iron Ore during the second quarter of 2011 compared to the prior year period primarily due to timing of shipments. Sales volumes in 2010 contained fixed tonnage commitments required by the ArcelorMittal umbrella agreement that expired at the end of 2010.

Refer to Results of Operations Segment Information for additional information regarding the impact of specific factors that impacted our operating results during the period.

Cost of Goods Sold and Operating Expenses

Cost of goods sold and operating expenses for the three and six months ended June 30, 2011 increased $305.4 million and $312.2 million, respectively, over the comparable prior year periods. The increase was primarily attributable to higher sales volumes at our Eastern Canadian Iron Ore and North American Coal business operations, resulting in higher costs. Cost of goods sold and operating expenses for the second quarter and first half of 2011 also included the impact of expensing an additional $48.4 million of stepped-up value of inventory that resulted from the purchase accounting for the acquisition of Consolidated Thompson. In addition, costs were negatively impacted in the first half of 2011 by approximately $46.8 million related to unfavorable foreign exchange rates compared with the first half of 2010. These increases in cost were partially offset by lower costs at our U.S. Iron Ore business operations as a result of lower sales volume and cost reductions resulting from the ArcelorMittal price re-opener settlement. The cost reductions represent the cost reimbursements that we realize under cost sharing arrangements with ArcelorMittal. In addition, $10.7 million of inventory step-up related to the accounting for the acquisition of the remaining interest in Wabush was recognized in the first quarter of 2010.

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Other Operating Income (Expense)

Following is a summary of other operating income (expense) for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Variance Favorable/ (Unfavorable)	2011	2010	Variance Favorable/ (Unfavorable)
Selling, general and administrative expenses	$ (69.5)	$ (42.5)	$ (27.0)	$ (115.3)	$ (86.9)	$ (28.4)
Consolidated Thompson acquisition costs	(18.0)	-	(18.0)	(22.9)	-	(22.9)
Exploration costs	(18.2)	(7.7)	(10.5)	(28.8)	(9.3)	(19.5)
Miscellaneous - net	(8.2)	1.3	(9.5)	(4.4)	10.7	(15.1)