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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EX-32(b) Section 906 Certification of Chief Financial Officer

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 In
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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			(In Millions)	
Investment	Classification	Interest Percentage	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.

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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.

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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			