CLIFFS NATURAL RESOURCES INC.
Form 10-Q
October 30, 2009
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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 September 30, 2009

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	34-1464672
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

200 Public Square, Cleveland, Ohio	44114-2315
(Address of Principal Executive Offices)	(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

As of October 27, 2009, there were 130,975,068 Common Shares (par value $0.125 per share) outstanding.

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EX-31(a) Section 302 Certification of Chief Executive Officer

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EX-32(a) Section 906 Certification of Chief Executive Officer

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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 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
Amapá	Anglo Ferrous Amapá Mineração Ltda. and Anglo Ferrous Logística Amapá Ltda.
Anglo	Anglo American plc
ASC	Accounting Standards Codification
ASU	Accounting Standard Update
AusQuest	AusQuest Limited
CAWO	Cliffs Australian Washplant Operations Pty Ltd
Cockatoo Island	Cockatoo Island Joint Venture
DEP	Department of Environment Protection
Directors Plan	1996 Nonemployee Directors Compensation Plan, as amended and restated 1/1/2005
Dofasco	ArcelorMittal Dofasco Inc.
DSA	Draft stipulation agreement
Empire	Empire Iron Mining Partnership
EPA	United States Environmental Protection Agency
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States
Golden West	Golden West Resources Ltd.
Hibbing	Hibbing Taconite Company
ICE Plan	Incentive Equity Plan
IRS	Internal Revenue Service
LIBOR	London Interbank Offered Rate
LTVSMC	LTV Steel Mining Company
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MDEQ	Michigan Department of Environmental Quality
MMBtu	Million British Thermal Units
MPCA	Minnesota Pollution Control Agency
Northshore	Northshore Mining Company
NPDES	National Pollutant Discharge Elimination System
NRD	Natural Resource Damages
NYSE	New York Stock Exchange
Oak Grove	Oak Grove Resources, LLC
OCI	Other comprehensive income
OPEB	Other postretirement benefits
Pinnacle	Pinnacle Mining Company, LLC
Qcoal	Qcoal Pty Ltd
Renewafuel	Renewafuel, LLC
RTWG	Rio Tinto Working Group
SEC	United States Securities and Exchange Commission
SMM	Sonoma Mine Management
Sonoma	Sonoma Coal Project
Tilden	Tilden Mining Company L.C.
Sonoma Sales	Sonoma Sales Pty Ltd
Stelco	Stelco Inc.
Tilden	Tilden Mining Company L.C.
Tonne	Metric ton (equal to 1,000 kilograms or 2,205 pounds)
TSR	Total Shareholder Return
United Taconite	United Taconite LLC
U.S.	United States of America
U.S. Steel	United States Steel Corporation
USW	United Steelworkers
VEBA	Voluntary Employee Benefit Association trusts
VIE	Variable interest entity
VNQDC Plan	Voluntary Non-Qualified Deferred Compensation Plan
Wabush	Wabush Mines Joint Venture
WEPCO	Wisconsin Electric Power Company

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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 September 30,		Nine Months Ended September 30,	
	2009	2008	**2009**	2008
REVENUES FROM PRODUCT SALES AND SERVICES				
Product	**$ 669.9**	$ 1,110.8	**$ 1,444.1**	$ 2,444.4
Freight and venture partners cost reimbursements	**(3.5)**	78.9	**77.4**	248.4
	666.4	1,189.7	**1,521.5**	2,692.8
COST OF GOODS SOLD AND OPERATING EXPENSES	**(563.2)**	(824.7)	**(1,387.6)**	(1,819.0)
SALES MARGIN	**103.2**	365.0	**133.9**	873.8
OTHER OPERATING INCOME (EXPENSE)				
Royalties and management fee revenue	**(0.2)**	5.1	**3.5**	16.0
Selling, general and administrative expenses	**(28.4)**	(41.8)	**(83.6)**	(138.4)
Casualty recoveries	**-**	0.5	**-**	10.5
Gain on sale of assets	**1.0**	0.1	**1.5**	21.1
Miscellaneous - net	**4.9**	10.5	**19.3**	8.6
	(22.7)	(25.6)	**(59.3)**	(82.2)
OPERATING INCOME	**80.5**	339.4	**74.6**	791.6
OTHER INCOME (EXPENSE)				
Changes in fair value of foreign currency contracts, net	**8.8**	(94.3)	**84.8**	(94.3)
Interest income	**1.9**	5.9	**7.7**	17.8
Interest expense	**(10.0)**	(10.7)	**(29.3)**	(27.7)
Other non-operating income (expense)	**0.2**	3.3	**(0.6)**	3.4
	0.9	(95.8)	**62.6**	(100.8)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY LOSS FROM VENTURES	**81.4**	243.6	**137.2**	690.8
INCOME TAX BENEFIT (EXPENSE)	**(1.9)**	(52.0)	**14.6**	(173.6)
EQUITY LOSS FROM VENTURES	**(20.9)**	(13.1)	**(55.6)**	(26.2)
NET INCOME	**58.6**	178.5	**96.2**	491.0
LESS: NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	**(0.2)**	3.6	**(0.7)**	29.1
NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	**58.8**	174.9	**96.9**	461.9
PREFERRED STOCK DIVIDENDS	**-**	-	**-**	(1.1)
INCOME APPLICABLE TO COMMON SHARES	**$ 58.8**	$ 174.9	**$ 96.9**	$ 460.8

EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - BASIC	**$ 0.45**	$ 1.67	**$ 0.79**	$ 4.72
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - DILUTED	**$ 0.45**	$ 1.61	**$ 0.78**	$ 4.34
AVERAGE NUMBER OF SHARES (IN THOUSANDS)				
Basic	**130,840**	104,753	**123,045**	97,605
Diluted	**131,736**	108,719	**123,768**	106,439
CASH DIVIDENDS PER SHARE	**$ 0.04**	$ 0.0875	**$ 0.1675**	$ 0.2625

See notes to unaudited condensed consolidated financial statements.

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CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES

STATEMENTS OF CONDENSED CONSOLIDATED FINANCIAL POSITION

	(In Millions)	
	September 30, 2009	December 31, 2008
ASSETS	(Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	**$ 359.9**	$ 179.0
Accounts receivable	**87.2**	68.5
Inventories	**292.3**	265.4
Supplies and other inventories	**102.9**	101.2
Deferred and refundable income taxes	**83.4**	54.8
Other current assets	**90.6**	192.8
TOTAL CURRENT ASSETS	**1,016.3**	861.7
PROPERTY, PLANT AND EQUIPMENT, NET	**2,556.3**	2,456.1
OTHER ASSETS		
Investments in ventures	**318.5**	305.3
Goodwill	**73.0**	2.0
Intangible assets, net	**116.3**	109.6
Deferred income taxes	**214.7**	251.2
Other non-current assets	**216.1**	125.2
TOTAL OTHER ASSETS	**938.6**	793.3
TOTAL ASSETS	**$ 4,511.2**	$ 4,111.1
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	**$ 171.5**	$ 201.0
Accrued expenses	**144.7**	145.0
Taxes payable	**40.8**	144.8
Derivative liabilities	**29.8**	194.3
Other current liabilities	**173.2**	159.8
TOTAL CURRENT LIABILITIES	**560.0**	844.9
POSTEMPLOYMENT BENEFIT LIABILITIES	**424.8**	448.0
LONG-TERM DEBT	**525.0**	525.0
BELOW-MARKET SALES CONTRACTS	**163.4**	183.6
OTHER LIABILITIES	**431.1**	355.6
TOTAL LIABILITIES	**2,104.3**	2,357.1
3.25% REDEEMABLE CUMULATIVE CONVERTIBLE PERPETUAL PREFERRED STOCK - ISSUED 172,500 SHARES 205 SHARES OUTSTANDING IN 2008	**-**	0.2
EQUITY		
CLIFFS SHAREHOLDERS EQUITY		
Common Shares - par value $0.125 per share		
Authorized - 224,000,000 shares;		
Issued - 134,623,528 shares (2008 - 134,623,528 shares);		
Outstanding - 130,975,041 shares (2008 - 113,508,990 shares)	**16.8**	16.8
Capital in excess of par value of shares	**693.3**	442.2

Retained Earnings		**1,876.4**		1,799.9
Cost of 3,648,487 common shares in treasury (2008 - 21,114,538 shares)		**(19.9)**		(113.8)
Accumulated other comprehensive loss		**(160.9)**		(394.6)
TOTAL CLIFFS SHAREHOLDERS EQUITY		**2,405.7**		1,750.5
NONCONTROLLING INTEREST		**1.2**		3.3
TOTAL EQUITY		**2,406.9**		1,753.8
TOTAL LIABILITIES AND EQUITY	**$**	**4,511.2**	$	4,111.1

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) Nine Months Ended September 30,	
	2009	2008
CASH FLOW FROM OPERATIONS		
OPERATING ACTIVITIES:		
Net income	**$ 96.2**	$ 491.0
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation, depletion and amortization	**172.7**	129.2
Derivatives and currency hedges	**(180.9)**	(26.0)
Changes in deferred revenue	**(29.3)**	(28.4)
Deferred income taxes	**(21.4)**	(2.6)
Foreign exchange gain	**(25.0)**	-
Income tax uncertainties	**59.0**	14.5
Equity loss in ventures (net of tax)	**55.6**	26.2
Other	**14.7**	(33.3)
Changes in operating assets and liabilities:		
Receivables and other assets	**(36.5)**	(76.3)
Product inventories	**(14.3)**	(48.9)
Payables and accrued expenses	**(96.2)**	136.8
Net cash provided (used) by operating activities	**(5.4)**	582.2
INVESTING ACTIVITIES		
Purchase of noncontrolling interest in Portman	**-**	(137.8)
Purchase of noncontrolling interest in United Taconite	**-**	(104.4)
Purchase of property, plant and equipment	**(95.8)**	(147.7)
Investments in ventures	**(79.1)**	(20.3)
Proceeds from sale of assets	**23.8**	39.5
Other investing activities	**1.5**	(2.5)
Net cash used by investing activities	**(149.6)**	(373.2)
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	**347.3**	-
Borrowings under credit facility	**278.4**	370.0
Repayments under credit facility	**(276.2)**	(610.0)
Borrowings under senior notes	**-**	325.0
Common stock dividends	**(20.4)**	(26.1)
Preferred stock dividends	**-**	(2.2)
Other financing activities	**(4.8)**	(3.5)
Net cash provided by financing activities	**324.3**	53.2
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**11.6**	(31.0)
INCREASE IN CASH AND CASH EQUIVALENTS	**180.9**	231.2
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**179.0**	157.1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 359.9**	$ 388.3

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

September 30, 2009

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 interim results are not necessarily indicative of results for the full year. 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, 2008.

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

Name	Location	Ownership Interest	Operation
Northshore	Minnesota	100.0%	Iron Ore
United Taconite	Minnesota	100.0%	Iron Ore
Pinnacle	West Virginia	100.0%	Coal
Oak Grove	Alabama	100.0%	Coal
Asia Pacific Iron Ore	Western Australia	100.0%	Iron Ore
Tilden	Michigan	85.0%	Iron Ore
Empire	Michigan	79.0%	Iron Ore

Intercompany transactions and balances are eliminated upon consolidation.

The following table presents the detail of our investments in unconsolidated ventures and where those investments are classified on the Statements of Condensed Consolidated Financial Position. Parentheses indicate a net liability.

			(In Millions)	
Investment	Classification	Interest Percentage	September 30, 2009	December 31, 2008
Amapá	*Investments in ventures*	30	$ 277.2	$ 266.3
AusQuest	*Investments in ventures*	30	22.8	19.2
Cockatoo (1)	*Investments in ventures*	50	7.2	(13.5)
Wabush (2)(3)	*Other liabilities*	27	(12.6)	12.1
Hibbing	*Other liabilities*	23	(8.8)	(22.1)
Other	*Investments in ventures*		11.3	7.7
			$ 297.1	$ 269.7

(1) Recorded as *Other liabilities* at December 31, 2008.

(2) Recorded as *Investments in ventures* at December 31, 2008.

(3) On October 12, 2009, we exercised our right of first refusal to acquire U.S. Steel Canada s 44.6 percent interest and ArcelorMittal Dofasco s 28.6 percent interest in Wabush, thereby increasing our ownership stake in Wabush Mines to 100 percent. Refer to NOTE 20 SUBSEQUENT EVENTS for further information.

Our share of the results from Amapá and AusQuest are reflected as *Equity loss from ventures* on the Statements of Unaudited Condensed Consolidated Operations. Our share of equity income (loss) from Cockatoo, Hibbing and Wabush is eliminated against consolidated product inventory upon production, and against cost of goods sold and operating expenses when sold. This effectively reduces the cost of our share of the mining venture s production to its cost, reflecting the cost-based nature of our participation in these unconsolidated ventures.

Through various interrelated arrangements, we achieve a 45 percent economic interest in Sonoma, despite the ownership percentages of the individual components of Sonoma. We own 100 percent of CAWO, 8.33 percent of the exploration permits and applications for mining leases for the real estate that is involved in Sonoma (Mining Assets) and 45 percent of the infrastructure, including the construction of a rail loop and related equipment (Non-Mining Assets). CAWO is consolidated as a wholly-owned subsidiary, and as a result of being the primary beneficiary, we absorb greater than 50 percent of the residual returns and expected losses of CAWO. We record our ownership share of the Mining Assets and Non-Mining Assets and share in the respective costs. Although SMM does not have sufficient equity at risk and accordingly qualifies as a VIE, we are not the primary beneficiary of SMM. Accordingly, we account for our investment in SMM in accordance with the equity method.

Summarized financial information for our significant equity method investment, as defined under Regulation S-X, for the three and nine months ended September 30, 2009 and 2008 is as follows:

	(In Millions)			
	Three Months Ended September 30, [1]		Nine Months Ended September 30, [1]	
Amapá	2009	2008	2009	2008
Revenues	$ 23.7	$ 20.5	$ 70.5	$ 40.7
Sales margin	(11.7)	12.8	(28.9)	(17.0)
Loss from continuing operations before extraordinary items and cumulative effect of a change in accounting	(64.7)	(38.1)	(171.2)	(83.1)
Net loss	(64.7)	(38.1)	(171.2)	(83.1)

(1) The financial information of Amapá is recorded one month in arrears and is presented in accordance with U.S. GAAP. The information presented in the table represents 100% of Amapá s results.

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, 2008, included in our Annual Report on Form 10-K filed with the SEC. There have been no material changes in our significant accounting policies and estimates from those disclosed therein.

Recent Accounting Pronouncements

Effective July 1, 2009, we adopted the *FASB Accounting Standards Codification* (Codification). The Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The content of the Codification carries the same level of authority, thereby modifying the previous GAAP hierarchy to include only two levels of GAAP: authoritative and nonauthoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Adoption of the Codification did not result in a change in current accounting practice.

Effective January 1, 2009, we adopted the amendments to FASB ASC 815 regarding disclosures about derivative instruments and hedging activities, which revised and expanded the disclosure requirements to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under U.S. GAAP, and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The new requirements apply to derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under FASB ASC 815 and are effective for fiscal years and interim periods beginning after November 15, 2008. Refer to NOTE 7 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES for further information.

Effective January 1, 2009, we adopted the amended provisions of FASB ASC 810 related to noncontrolling interests in consolidated financial statements, which established accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The amendment clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The amended provisions are effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 and have been applied prospectively as of January 1, 2009, except for the presentation and disclosure requirements, which have been applied retrospectively for all periods presented.

As of the adoption date, our noncontrolling interests are primarily comprised of majority-owned subsidiaries within our North American Iron Ore business segment. The mining ventures function as captive cost companies, as they supply products only to their owners effectively on a cost basis. Accordingly, the noncontrolling interests revenue amounts are stated at cost of production and are offset entirely by an equal amount included in cost of goods sold, resulting in no sales margin reflected in noncontrolling interest participants. As a result, the adoption of the amendments to FASB ASC 810 did not have a material impact on our consolidated financial statements.

We adopted the revised provisions of FASB ASC 805 related to business combinations effective January 1, 2009. The amended guidance establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date fair value. Information is required to be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The amendment applies prospectively to 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, 2008. The adoption of this amendment did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued an update to ASC 805 to amend and clarify the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination. Under the new guidance, assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value can not be determined, companies should typically account for the acquired contingencies using existing guidance. The guidance is effective for business combinations whose acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15,

2008. We adopted the revised provisions of FASB ASC 805 effective January 1, 2009. The adoption of this amendment did not have a material impact on our consolidated financial statements.

Effective January 1, 2009, we adopted the updated provisions of FASB ASC 808 related to accounting for collaborative arrangements. The guidance defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. The updated guidance is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The adoption of this amendment did not have a material impact on our consolidated financial statements.

Effective January 1, 2009, we adopted the updated provisions of FASB ASC 260 related to the determination of whether instruments granted in share-based payment transactions are participating securities. This guidance was issued in order to address whether instruments granted in share-based payment transactions are considered participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. The updated guidance is effective for fiscal years beginning after December 15, 2008 and for interim periods within such years. The adoption of this amendment did not have a material impact on our consolidated financial statements.

In November 2008, the FASB updated ASC 323 to address certain matters associated with the accounting for equity method investments including initial recognition and measurement and subsequent measurement considerations. The guidance indicates, among other things, that transaction costs for an investment should be included in the cost of the equity method investment, and shares subsequently issued by the equity method investee that reduce the investor s ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings. The amendments are effective, on a prospective basis, for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The implementation of this guidance did not have a material impact on our consolidated results of operations or financial condition.

In April 2009, the FASB updated ASC 820 to provide additional guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased, including guidance on identifying circumstances that indicate a transaction is not orderly. The updated guidance emphasizes that the objective of a fair value measurement remains the same even if there has been a significant decrease in the volume and level of activity for the asset or liability and amends certain reporting requirements for interim and annual periods related to disclosure of major security types and the inputs and valuation techniques used in determining fair value. The amendment is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted and applied the updated provisions of FASB ASC 820 prospectively upon the effective date for the interim period ending June 30, 2009. The adoption of this amendment did not have a material impact on our consolidated financial statements. Refer to NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS for further information.

In August 2009, the FASB issued ASU No. 2009-05 which amends ASC 820-10-35 to provide further guidance concerning the measurement of a liability at fair value when there is a lack of observable market information, particularly in relation to a liability whose transfer is contractually restricted. The amendment provides additional guidance on the use of an appropriate valuation technique that reflects the quoted price of an identical or similar liability when traded as an asset and

clarifies the circumstances under which adjustments to such price may be required in estimating the fair value of the liability. The guidance provided in this update is effective for the first reporting period beginning after issuance, with early application permitted. The amendment will be adopted for the annual reporting period ended December 31, 2009; however, we do not expect it to have a material impact on our consolidated financial statements.

In April 2009, the FASB issued ASU No. 2009-02 which updated ASC 320 to amend the existing other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The new guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The amendment shifts the focus from an entity s intent to hold a debt security until recovery to its intent to sell and changes the amount of an other-than-temporary impairment loss recognized in earnings when the impairment is recorded because of a credit loss. It also expands disclosure requirements related to the types of securities held, the reasons that a portion of an other-than-temporary impairment of a debt security was not recognized in earnings, and the methodology and significant inputs used to calculate the portion of the total other-than-temporary impairment that was recognized in earnings. The updated guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted this amendment for the interim period ending June 30, 2009. Refer to NOTE 4 MARKETABLE SECURITIES for further information.

In April 2009, the FASB issued an update to ASC 825, which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements, including significant assumptions used to estimate the fair value of financial instruments and changes in methods and significant assumptions, if any, during the period. The new guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted this amendment upon its effective date for the interim period ending June 30, 2009. Refer to NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS for further information.

In May 2009, the FASB issued ASC 855 related to subsequent events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the guidance is based on the same principles as those that currently exist in the auditing standards. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. We adopted the provisions of ASC 855 for the interim period ending June 30, 2009. Refer to NOTE 20 SUBSEQUENT EVENTS for further information.

In June 2009, the FASB amended the guidance on transfers of financial assets in order to address practice issues highlighted most recently by events related to the economic downturn. The amendments include: (1) eliminating the qualifying special-purpose entity concept, (2) a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, (3) clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale, (4) a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor, and (5) extensive new disclosures. The new guidance will be effective January 1, 2010 for calendar year-end companies. We are currently evaluating whether the adoption of this amendment will have a material impact on our consolidated financial statements.

In June 2009, the FASB amended the consolidation guidance for variable-interest entities. The amendment was issued in response to perceived shortcomings in the consolidation model that were highlighted by recent market events, including concerns about the ability to structure transactions under the current guidance to avoid consolidation, balanced with the need for more relevant, timely, and reliable information about an enterprise s involvement in a variable-interest entity. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. The new guidance will be effective January 1, 2010 for calendar year-end companies. We are currently evaluating the impact adoption of this amendment will have on our consolidated financial statements.

In December 2008, the FASB issued an update to ASC 715 regarding employers disclosures about postretirement benefit plan assets. The amended guidance requires disclosure of additional information about investment allocation, fair values of major categories of assets, the development of fair value measurements, and concentrations of risk. The amendment is effective for fiscal years ending after December 15, 2009; however, earlier application is permitted. We will adopt the amendment upon its effective date and will report the required disclosures for our fiscal year ending December 31, 2009.

On September 30, 2009 the FASB issued ASU 2009-121 to provide guidance on measuring the fair value of certain alternative investments. The ASU amends ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share (NAV). The ASU is effective for the first reporting period ending after December 15, 2009; however, early adoption is permitted. We will adopt this amendment for the annual reporting period ended December 31, 2009, and are currently evaluating the impact adoption of this amendment will have on our consolidated financial statements, particularly in relation to the valuation of our postretirement benefit plan assets.

NOTE 2 SEGMENT REPORTING

Our company is organized and managed according to product category and geographic location: North American Iron Ore, North American Coal, Asia Pacific Iron Ore, Asia Pacific Coal and Latin American Iron Ore. The North American Iron Ore segment is comprised of our interests in six North American mines that provide iron ore to the integrated steel industry. The North American Coal segment is comprised of our two North American coking coal mining complexes that provide metallurgical coal primarily to the integrated steel industry. The Asia Pacific Iron Ore segment is located 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, which is in the early stages of production. The Asia Pacific Coal and Latin American Iron Ore operating segments do not meet reportable segment disclosure requirements and therefore are not separately reported.

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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.

The following table presents a summary of our reportable segments for the three and nine months ended September 30, 2009 and 2008:

	(In Millions)							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
Revenues from product sales and services:								
North American Iron Ore	$ 428.2	64%	$ 811.3	68%	$ 879.3	58%	$ 1,733.5	64%
North American Coal	37.9	6%	102.6	9%	125.2	8%	258.0	10%
Asia Pacific Iron Ore	165.3	25%	232.7	19%	405.4	27%	618.4	23%
Other	35.0	5%	43.1	4%	111.6	7%	82.9	3%
Total revenues from product sales and services for reportable segments	$ 666.4	100%	$ 1,189.7	100%	$ 1,521.5	100%	$ 2,692.8	100%
Sales margin:								
North American Iron Ore	$ 89.5		$ 259.3		$ 108.1		$ 596.5	
North American Coal	(15.5)		(13.3)		(63.4)		(38.8)	
Asia Pacific Iron Ore	27.1		99.7		67.4		282.0	
Other	2.1		19.3		21.8		34.1	
Sales margin	103.2		365.0		133.9		873.8	
Other operating expense	(22.7)		(25.6)		(59.3)		(82.2)	
Other income (expense)	0.9		(95.8)		62.6		(100.8)	
Income from continuing operations before income taxes and equity loss from ventures	$ 81.4		$ 243.6		$ 137.2		$ 690.8	
Depreciation, depletion and amortization:								
North American Iron Ore	$ 24.0		$ 17.5		$ 56.0		$ 38.4	
North American Coal	8.4		12.2		26.9		39.8	
Asia Pacific Iron Ore	22.3		17.5		81.5		44.5	
Other	3.3		3.9		8.3		6.5	
Total depreciation, depletion and amortization	$ 58.0		$ 51.1		$ 172.7		$ 129.2	
Capital additions (1):								
North American Iron Ore	$ 13.7		$ 30.2		$ 35.2		$ 49.7	
North American Coal	4.2		36.3		16.7		56.2	
Asia Pacific Iron Ore	17.7		16.5		90.6		51.7	
Other	1.3		3.5		8.2		14.8	
Total capital additions	$ 36.9		$ 86.5		$ 150.7		$ 172.4	

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

A summary of assets by segment is as follows:

	(In Millions)	
	September 30, 2009	December 31, 2008
Segment assets:		
North American Iron Ore	$ 2,077.4	$ 1,818.5
North American Coal	761.8	773.7
Asia Pacific Iron Ore	1,300.4	1,210.9
Other	371.6	308.0
Total assets	$ 4,511.2	$ 4,111.1

NOTE 3 INVENTORIES

The following table presents the detail of our *Inventories* on the Statements of Condensed Consolidated Financial Position at September 30, 2009 and December 31, 2008:

	(In Millions)					
	September 30, 2009			December 31, 2008		
Segment	Finished Goods	Work-in Process	Total Inventory	Finished Goods	Work-in Process	Total Inventory
North American Iron Ore	$ 192.0	$ 11.3	$ 203.3	$ 135.3	$ 13.5	$ 148.8
North American Coal	14.1	4.0	18.1	15.0	6.7	21.7
Asia Pacific Iron Ore	25.4	36.9	62.3	30.6	55.1	85.7
Other	4.2	4.4	8.6	6.6	2.6	9.2
Total	$ 235.7	$ 56.6	$ 292.3	$ 187.5	$ 77.9	$ 265.4

NOTE 4 MARKETABLE SECURITIES

Our marketable securities consist of debt and equity instruments and are classified as either held-to-maturity or available-for-sale. Securities investments that we have the intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Investments in marketable equity securities that are being held for an indefinite period are classified as available-for-sale. We determine the appropriate classification of debt and equity securities at the time of purchase and re-evaluate such designation as of each balance sheet date. In addition, we review our investments on an ongoing basis for indications of possible impairment. Once identified, the determination of whether the impairment is temporary or other-than-temporary requires significant judgment. The primary factors that we consider in classifying the impairment include the extent and time the fair value of each investment has been below cost, and the existence of a credit loss in relation to our debt securities. If a decline in fair value is judged other than temporary, the basis of the individual security is written down to fair value as a new cost basis, and the amount of the write-down is included as a realized loss. For our held-to-maturity debt securities, if the fair value is less than cost, and we do not expect to recover the entire amortized cost basis of the security, the other-than-temporary impairment is separated into the amount representing the credit loss, which is recognized in earnings, and the amount representing all other factors, which is recognized in other comprehensive income.

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At September 30, 2009 and December 31, 2008, we had $55.1 million and $30.2 million, respectively, of marketable securities as follows:

	(In Millions)	
	September 30, 2009	December 31, 2008
Held to maturity - current	$ 2.2	$ 4.8
Held to maturity - non-current	15.7	14.2
	17.9	19.0
Available for sale - non-current	37.2	11.2
Total	$ 55.1	$ 30.2

The amortized cost, gross unrealized gains and losses and fair value of investment securities held-to-maturity at September 30, 2009 and December 31, 2008 are summarized as follows:

	September 30, 2009 (In Millions)			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Asset backed securities	$ 2.6	$ -	$ (1.1)	$ 1.5
Floating rate notes	15.3	-	(0.6)	14.7
Total	$ 17.9	$ -	$ (1.7)	$ 16.2

	December 31, 2008 (In Millions)			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Asset backed securities	$ 2.1	$ -	$ (0.6)	$ 1.5
Floating rate notes	16.9	-	(1.1)	15.8
Total	$ 19.0	$ -	$ (1.7)	$ 17.3

Investment securities held-to-maturity at September 30, 2009 and December 31, 2008 have contractual maturities as follows:

	(In Millions)	
	September 30, 2009	December 31, 2008
Asset backed securities:		
Within 1 year	$ -	$ -
1 to 5 years	2.6	2.1
	$ 2.6	$ 2.1

Floating rate notes:		
Within 1 year	$ 2.2	$ 4.8
1 to 5 years	13.1	12.1
	$ 15.3	$ 16.9

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The following table shows our gross unrealized losses and fair value of securities classified as held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2009 and December 31, 2008:

	Less than 12 months (In Millions)			
	September 30, 2009		December 31, 2008	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Asset backed securities	$ -	$ -	$ -	$ -
Floating rate notes	-	-	(0.1)	1.7
	$ -	$ -	$ (0.1)	$ 1.7

	12 months or longer (In Millions)			
	September 30, 2009		December 31, 2008	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Asset backed securities	$ (1.1)	$ 1.5	$ (0.6)	$ 1.5
Floating rate notes	(0.6)	14.7	(1.0)	14.1
	$ (1.7)	$ 16.2	$ (1.6)	$ 15.6

We believe that the unrealized losses on the held-to-maturity portfolio at September 30, 2009 are temporary and are related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuers. We expect to recover the entire amortized cost basis of the held-to-maturity debt securities, and we intend to hold these investments until maturity.

Marketable securities classified as available-for-sale are stated at fair value, with unrealized holding gains and losses included in *Other comprehensive income*. The amortized cost, gross unrealized gains and losses and fair value of investment securities available-for-sale at September 30, 2009 and December 31, 2008 are summarized as follows:

	(In Millions) September 30, 2009			
		Gross Unrealized		
	Cost	Gains	Losses	Fair Value
Equity securities (without contractual maturity)	$ 17.2	$ 20.3	$ (0.3)	$ 37.2

	(In Millions) December 31, 2008			
		Gross Unrealized		
	Cost	Gains	Losses	Fair Value
Equity securities (without contractual maturity)	$ 12.0	$ -	$ (0.8)	$ 11.2

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.

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United Taconite

The Statements of Condensed Consolidated Financial Position as of September 30, 2009 and December 31, 2008 reflect the acquisition of the remaining interest in United Taconite, effective July 1, 2008, under the purchase method of accounting. The transaction constituted a step acquisition of a noncontrolling interest. As of the date of the step acquisition of the noncontrolling interest, the then historical cost basis of the noncontrolling interest balance was eliminated, and the increased ownership obtained was accounted for by increasing United Taconite s basis from historical cost to fair value for the portion of the assets acquired and liabilities assumed based on the 30 percent additional ownership acquired.

We finalized the purchase price allocation in the second quarter of 2009 as follows:

	(In Millions)
Carrying value of net assets acquired	$ 25.3
Fair value adjustments:	
ASSETS	
Land	7.6
Plant and equipment	90.8
Mineral reserves	480.6
Intangible assets	75.4
LIABILITIES	
Below market sales contracts	(229.0)
Fair value of net assets acquired	$ 450.7
Purchase price	$ 450.7

There were no significant changes to the purchase price allocation from the initial allocation performed in 2008.

Asia Pacific Iron Ore Share Repurchase and Buyout

In 2008, we acquired the remaining noncontrolling interest in Asia Pacific Iron Ore (formerly known as Portman Limited) through a series of step acquisitions. In the second quarter of 2008, our ownership interest increased from 80.4 percent to 85.2 percent as a result of a share repurchase in which we did not participate. In the fourth quarter of 2008, we completed a second step acquisition to acquire the remaining noncontrolling interest in Asia Pacific Iron Ore. In accordance with FASB ASC 805, we have accounted for the acquisition of the noncontrolling interest under the purchase method. We finalized the purchase price allocation in 2009 for both the share repurchase and the buyout. A comparison of the initial allocation and final purchase price allocation is as follows:

	(In Millions)		
	Finalized Allocation	Initial Allocation	Change
Carrying value of net assets acquired	$ 85.6	$ 85.6	$ -
Fair value adjustments:			

Inventory	79.6	59.1	20.5
Plant and equipment	17.3	18.6	(1.3)
Mineral reserves	173.2	238.2	(65.0)
Intangible assets	42.1	40.1	2.0
Deferred taxes	27.6	58.3	(30.7)
Fair value of net assets acquired	425.4	499.9	(74.5)
Goodwill	68.3	-	68.3
Purchase price	$ 493.7	$ 499.9	$ (6.2)

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The adjustment to the purchase price reflects changes to direct acquisition costs resulting from adjustments to the stamp duty assessment. Changes to the fair value adjustments for acquired tangible and intangible assets resulted from the finalization of certain assumptions used in the valuation models utilized to determine their fair values. Changes to the fair value adjustments for mineral reserves resulted primarily from the finalization of pricing assumptions and do not reflect changes in the quality of the related ore body. Changes to the fair value adjustments for deferred taxes resulted from the finalization of our step-up in tax base of Asia Pacific Iron Ore s net assets triggered by our ownership of 100 percent of the entity. Goodwill reflects the residual value of the purchase price, less the fair value of the net assets acquired, based on exchange rates in effect at the time of the share repurchase, buyout and final allocation.

NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS AND LIABILITIES

Goodwill

The following table summarizes changes in the carrying amount of goodwill during the nine months ended September 30, 2009:

	(In Millions)	
	September 30, 2009	December 31, 2008 [(1)]
Beginning Balance - January 1	$ 2.0	$ 2.0
Arising in business combinations	68.3	-
Impact of foreign currency translation	2.7	-
Ending Balance	$ 73.0	$ 2.0

(1) Represents a 12-month rollforward of Goodwill at December 31, 2008.

We had goodwill of $2.0 million as of December 31, 2008 related to our North American Iron Ore segment, which was previously reported as a non-current asset within *Deposits and miscellaneous* on the Statements of Consolidated Financial Position. Goodwill increased in 2009 based on finalization of the purchase price allocation related to the Asia Pacific Iron Ore share repurchase and buyout. The balance of $73.0 million and $2.0 million at September 30, 2009 and December 31, 2008, respectively, is presented as *Goodwill* on the Statements of 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.

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Other Intangible Assets and Liabilities

Following is a summary of intangible assets and liabilities at September 30, 2009 and December 31, 2008:

		(In Millions)					
		September 30, 2009			December 31, 2008		
	Classification	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite lived intangible assets:							
Permits	*Intangible assets*	$ 119.2	$ (6.3)	$ 112.9	$ 109.3	$ (1.8)	$ 107.5
Leases	*Intangible assets*	3.1	(2.3)	0.8	3.1	(1.0)	2.1
Unpatented technology	*Intangible assets*	4.0	(1.4)	2.6	-	-	-
Total intangible assets		$ 126.3	$ (10.0)	$ 116.3	$ 112.4	$ (2.8)	$ 109.6
Below-market sales contracts	*Current liabilities*	$ (30.3)	$ -	$ (30.3)	$ (30.3)	$ -	$ (30.3)
Below-market sales contracts	*Long-term liabilities*	(198.7)	35.3	(163.4)	(198.7)	15.1	(183.6)
Total below-market sales contracts		$ (229.0)	$ 35.3	$ (193.7)	$ (229.0)	$ 15.1	$ (213.9)

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
Leases	1.5 - 4.5
Unpatented technology	5

Amortization expense relating to intangible assets was $2.4 million and $7.2 million, respectively, for the three and nine months ended September 30, 2009, and is recognized in *Cost of goods sold and operating expenses* on the Statements of Unaudited Condensed Consolidated Operations. The estimated amortization expense relating to intangible assets for the remainder of fiscal year 2009 and each of the five succeeding fiscal years is as follows:

	(In Millions) Amount
Year Ending December 31	
2009 (remaining three months)	$ 2.1
2010	6.6
2011	6.6
2012	6.6
2013	5.7
2014	5.7
Total	$ 33.3

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The below-market sales contracts are classified as a liability and recognized over the terms of the underlying contracts, which range from 3.5 to 8.5 years. For the three and nine months ended September 30, 2009, we recognized $10.1 million and $20.2 million, respectively, in *Product revenues* related to the below-market sales contracts. The following amounts will be recognized in earnings for the remainder of fiscal year 2009 and each of the five succeeding fiscal years:

	(In Millions) Amount
Year Ending December 31	
2009 (remaining three months)	$ 10.1
2010	30.3
2011	30.3
2012	27.0
2013	27.0
2014	25.0
Total	$ 149.7

NOTE 7 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 Condensed Consolidated Financial Position as of September 30, 2009 and December 31, 2008:

	(In Millions)							
	Derivative Assets				Derivative Liabilities			
	September 30, 2009		December 31, 2008		September 30, 2009		December 31, 2008	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:								
Interest Rate Swap		$ -		$ -	Derivative liabilities (current)	$ 1.0	Derivative liabilities (current)	$ 2.6
Total derivatives designated as hedging instruments under ASC 815		$ -		$ -		$ 1.0		$ 2.6
Derivatives not designated as hedging instruments under ASC 815:								
Foreign Exchange Contracts	Other current assets	$ 5.3	Derivative assets (current)	$ 0.3	Derivative liabilities (current)	$ -	Derivative liabilities (current)	$ 77.5
	Deposits and miscellaneous	-	Deposits and miscellaneous	0.6	Derivative liabilities (long-term)	-	Derivative liabilities (long-term)	34.3
Customer Supply Agreements	Other current assets	40.8	Derivative assets (current)	76.6		-		-
Benchmark Pricing		-		-	Derivative liabilities (current)	28.8	Derivative liabilities (current)	7.7

Provision						
United Taconite Purchase Provision	-	-	Derivative liabilities (current)	-	Derivative liabilities (current)	106.5
Total derivatives not designated as hedging instruments under ASC 815	$ 46.1	$ 77.5		$ 28.8		$ 226.0
Total derivatives	$ 46.1	$ 77.5		$ 29.8		$ 228.6

We are exposed to certain risks related to the ongoing operations of our business, including those caused by changes in the market value of equity investments, changes in commodity prices, interest rates and foreign currency exchange rates. We have established policies and procedures, including the use of certain derivative instruments, to manage such risks.

Derivatives Designated as Hedging Instruments

Cash Flow Hedges

Effective October 19, 2007, we entered into a $100 million fixed interest rate swap to convert a portion of our floating rate debt to fixed rate debt. Interest on borrowings under our credit facility is based on a floating rate, dependent in part on the LIBOR rate, exposing us to the effects of interest rate changes. The objective of the hedge is to eliminate the variability of cash flows in interest payments for forecasted floating rate debt, attributable to changes in benchmark LIBOR interest rates. With the swap agreement, we pay a fixed three-month LIBOR rate for $100 million of our floating rate borrowings. The changes in the cash flows of the interest rate swap are expected to offset the changes in the cash flows attributable to fluctuations in benchmark LIBOR interest rates for forecasted floating rate debt. The interest rate swap terminated in October 2009 and qualified as a cash flow hedge. Based on the current interest rate environment and the mix of fixed and variable interest rates that apply to our outstanding debt, we have no plans at this time to replace the interest rate swap.

To support hedge accounting, we designate floating-to-fixed interest rate swaps as cash flow hedges of the variability of future cash flows at the inception of the swap contract. The fair value of our outstanding hedges is recorded as an asset or liability on the consolidated statement of financial position. Ineffectiveness is measured quarterly based on the hypothetical derivative method. Accordingly, the calculation of ineffectiveness involves a comparison of the fair value of the interest rate swap and the fair value of a hypothetical swap, which has terms that are identical to the hedged item. The effective portion of the cash flow hedge is recorded in *Other Comprehensive Income*, and any ineffectiveness is recognized immediately in income. The amount charged to *Other comprehensive income* for the three and nine months ended September 30, 2009 was $0.9 million and $1.6 million, respectively, compared with $0.4 million and $(0.4) million, respectively, for the three and nine months ended September 30, 2008. *Derivative liabilities* of $1.0 million and $2.6 million were recorded on the Statements of Condensed Consolidated Financial Position as of September 30, 2009 and December 31, 2008, respectively. There was no ineffectiveness recorded for the interest rate swap during the first nine months of 2009 or 2008.

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The following summarizes the effect of our derivatives designated as hedging instruments on *Other Comprehensive Income* and the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2009 and 2008:

(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)		Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion)	
	Three months ended September 30,			Three months ended September 30,			Three months ended September 30,	
	2009	2008		2009	2008		2009	2008
Interest Rate Swap	$ 0.5	$ 0.2	Interest Income/(Expense)	$ -	$ -	Non-Operating Income/(Expense)	$ -	$ -
Foreign Exchange Contracts *(prior to de-designation)*	-	-	Product Revenue	2.9	12.4	Miscellaneous - net	-	-
Total	$ 0.5	$ 0.2		$ 2.9	$ 12.4		$ -	$ -
	Nine months ended September 30,			Nine months ended September 30,			Nine months ended September 30,	
	2009	2008		2009	2008		2009	2008
Interest Rate Swap	$ 1.0	$ (0.3)	Interest Income/(Expense)	$ -	$ -	Non-Operating Income/(Expense)	$ -	$ -
Foreign Exchange Contracts *(prior to de-designation)*	-	32.1	Product Revenue	12.8	22.9	Miscellaneous - net	-	(8.6)
Total	$ 1.0	$ 31.8		$ 12.8	$ 22.9		$ -	$ (8.6)

Derivatives Not Designated as Hedging Instruments

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 our reporting currency is the United States dollar. Our Asia Pacific operations receive funds in United States currency for their iron ore and coal sales. We use forward exchange contracts, call options, collar options and convertible collar options to hedge our foreign currency exposure for a portion of our sales receipts. United States 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 United States currency exchange rates and to protect against undue adverse movement in these exchange rates. Effective July 1, 2008, we discontinued hedge accounting for these derivatives, but continue to hold these instruments as economic hedges to manage currency risk.

During the third quarter of 2009, we sold approximately $270 million of the outstanding contracts and recognized a net realized loss of $3.3 million on the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2009 based upon the difference between the contract rates and the spot rates on the date each contract was sold. At September 30, 2009, we had outstanding exchange rate contracts with a notional amount of $148.5 million in the form of call options, collar options, and convertible collar options with varying maturity dates ranging from October 2009 to September 2010.

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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 nine months ended September 30, 2009, the mark-to-market adjustments resulted in a net unrealized gain of $8.8 million and $84.8 million, respectively, based on a spot rate of 0.88 at September 30, 2009. For the third quarter and first nine months of 2008, the mark-to-market adjustments resulted in a net unrealized loss of $94.3 million, based on a spot rate of 0.80 at September 30, 2008. The amounts that were previously recorded as a component of *Other comprehensive income* are reclassified to earnings and a corresponding realized gain or loss is recognized upon settlement of the related contracts. For the three and nine months ended September 30, 2009, we reclassified gains of $2.9 million and $12.8 million, respectively, from *Accumulated other comprehensive loss* related to contracts that settled during the period, and recorded the amounts as *Product revenues* on the Statements of Unaudited Condensed Consolidated Operations for each corresponding period. Gains of $12.4 million and $22.9 million, respectively, were reclassified to earnings for the three and nine months ended September 30, 2008. For the nine months ended September 30, 2008, ineffectiveness resulted in a loss of $8.6 million, which was recorded as *Miscellaneous net* on the Statements of Unaudited Condensed Consolidated Operations. As of September 30, 2009, approximately $6.2 million of gains remains in *Accumulated other comprehensive loss* related to the effective cash flow hedge contracts prior to de-designation. Of this amount, we estimate $4.6 million will be reclassified to *Product revenues* in the next 12 months upon settlement of the related contracts.

Customer Supply Agreements

Most of our North American Iron Ore long-term supply agreements are comprised of a base price with annual price adjustment factors. These 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. One of our term supply agreements contains price collars, which typically limit the percentage increase or decrease in prices for our iron ore pellets during any given year. In most cases, these adjustment factors have not been finalized at the time our product is sold; we routinely estimate these adjustment factors. 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 North American 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 an embedded derivative and is required to be accounted for separately from the base contract price. The embedded 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 an increase of $17.0 million and a reduction of $4.7 million in *Product revenues* for the three and nine months ended September 30, 2009, respectively, on the Statements of Unaudited Condensed Consolidated Operations related to the supplemental payments, compared with an increase in *Product revenues* of $85.1 million and $195.4 million,

respectively, for the comparable periods in 2008. Derivative assets, representing the fair value of the pricing factors, were $40.8 million and $76.6 million, respectively, on the September 30, 2009 and December 31, 2008 Statements of Condensed Consolidated Financial Position.

Benchmark Pricing Provision

Certain supply agreements primarily with our Asia Pacific Iron Ore customers provide for revenue or refunds based on the ultimate settlement of annual international benchmark pricing. The pricing provisions are characterized as freestanding derivatives and are required to be accounted for separately once iron ore is shipped. The derivative instrument, which is settled and billed once the annual international benchmark price is settled, is marked to fair value as a revenue adjustment each reporting period based upon the estimated forward settlement until the benchmark is actually settled. We recognized approximately $26.4 million as a reduction to *Product revenues* on the Statement of Unaudited Condensed Consolidated Operations for the nine months ended September 30, 2009 under these pricing provisions. We did not alter our estimate of the benchmark price during the third quarter of 2009; therefore, there was no impact on revenue related to provisional pricing adjustments for the three months ended September 30, 2009. As of September 30, 2009, the annual international benchmark prices have not yet settled with certain of our customers in China. We have recorded $28.8 million and $7.7 million as current *Derivative liabilities* on the Statements of Condensed Consolidated Financial Position at September 30, 2009 and December 31, 2008, respectively, for benchmark pricing provisions.

United Taconite Purchase Provision

The purchase agreement for the acquisition of the remaining 30 percent interest in United Taconite in 2008 contains a penalty provision in the event the 1.2 million tons of pellets included as part of the purchase consideration are not delivered by December 31, 2009. The penalty provision, which is not a fixed amount or a fixed amount per unit, is a net settlement feature in this arrangement, and therefore requires the obligation to be accounted for as a derivative instrument, which is based on the future Eastern Canadian pellet price. The instrument is marked to fair value each reporting period until the pellets are delivered and the amounts are settled. As of September 30, 2009 the entire 1.2 million tons of pellets have been delivered, thereby resulting in settlement of the derivative liability.

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 nine months ended September 30, 2009 and 2008:

(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 September 30,		Nine months ended September 30,	
		2009	2008	2009	2008
Foreign Exchange Contracts	Product Revenues	$ 1.4	$ 15.9	$ 2.1	$ 47.9
Foreign Exchange Contracts	Other Income (Expense)	8.8	(94.3)	84.8	(94.3)
Foreign Exchange Contracts	Miscellaneous - net	-	-	-	(8.6)
Customer Supply Agreements	Product Revenues	17.0	85.1	(4.7)	195.4
Benchmark Pricing Provision	Product Revenues	-	-	(28.2)	160.6
United Taconite Purchase Provision	Product Revenues	29.9	-	106.5	-

Total	$ 57.1	$ 6.7	$ 160.5	$ 301.0

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NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following represents the assets and liabilities of the Company measured at fair value at September 30, 2009 and December 31, 2008:

(In Millions)
September 30, 2009

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	$ 285.8	$ -	$ -	$ 285.8
Derivative assets	-	-	40.8	40.8
Marketable securities	37.2	-	-	37.2
Foreign exchange contracts	-	5.3	-	5.3
Total	$ 323.0	$ 5.3	$ 40.8	$ 369.1
Liabilities:				
Interest rate swap	$ -	$ 1.0	$ -	$ 1.0
Foreign exchange contracts	-	-	-	-
Derivative liabilities	-	-	28.8	28.8
Total	$ -	$ 1.0	$ 28.8	$ 29.8

December 31, 2008

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	$ 40.4	$ -	$ -	$ 40.4
Derivative assets	-	-	76.6	76.6
Marketable securities	10.9	0.3	-	11.2
Foreign exchange contracts	-	0.9	-	0.9
Total	$ 51.3	$ 1.2	$ 76.6	$ 129.1
Liabilities:				
Interest rate swap	$ -	$ 2.6	$ -	$ 2.6
Foreign exchange contracts	-	111.8	-	111.8
Derivative liabilities	-	-	114.2	114.2
Total	$ -	$ 114.4	$ 114.2	$ 228.6

Financial assets classified in Level 1 at September 30, 2009 and December 31, 2008 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 September 30, 2009 and December 31, 2008, such derivative financial instruments include substantially all of our foreign exchange hedge contracts and interest rate exchange agreements. The fair value of the interest rate swap and foreign exchange hedge contracts is based on a forward LIBOR curve and forward market prices, respectively, and represents the estimated amount we would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

The derivative financial asset classified within Level 3 is an embedded derivative instrument included in certain supply agreements with one of our 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 record this provision at fair value, based on an income approach when the product is consumed and the amounts are settled, as an adjustment to revenue. The fair value of the instrument is determined based on a future price of the average hot rolled steel price at certain steelmaking facilities and other inflationary indices, and takes into consideration current market conditions and nonperformance risk.

Level 3 derivative liabilities consist of freestanding derivatives related to certain supply agreements primarily with our Asia Pacific customers that provide for revenue or refunds based on the ultimate settlement of the 2009 international iron ore benchmark pricing provisions. The pricing provisions are characterized as freestanding derivatives and are required to be accounted for separately once the iron ore is shipped. The derivative instrument, which is settled and billed once the annual international benchmark price is settled, is marked to fair value as a revenue adjustment each reporting period based upon the estimated forward settlement until the benchmark is actually settled. The fair value of the instrument is determined based on the forward price expectation of the 2009 annual international benchmark price and takes into account current market conditions and other risks, including 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 and liabilities measured at fair value on a non-recurring basis at September 30, 2009 or December 31, 2008.

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 nine months ended September 30, 2009 and 2008.

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	(In Millions) Derivative Assets			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Beginning balance	$ 25.4	$ 125.8	$ 76.6	$ 53.8
Total gains (losses)				
Included in earnings	17.0	85.1	(4.7)	356.0
Included in other comprehensive income	-	-	-	-
Settlements	(1.6)	(73.9)	(31.1)	(272.8)
Transfers in (out) of Level 3	-	-	-	-
Ending balance - September 30	$ 40.8	$ 137.0	$ 40.8	$ 137.0
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses on assets still held at the reporting date	$ 17.0	$ 85.1	$ (4.7)	$ 195.4

	Derivative Liabilities			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Beginning balance	$ (65.8)	$ -	$ (114.2)	$ -
Total gains (losses)				
Included in earnings	(0.3)	-	(25.8)	-
Included in other comprehensive income	-	-	-	-
Settlements	37.3	-	117.1	-
Transfers (in) out of Level 3	-	181.3	(5.9)	181.3
Ending balance - September 30	$ (28.8)	$ 181.3	$ (28.8)	$ 181.3
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses on liabilities still held at the reporting date	$ -	$ -	$ (17.0)	$ -

Gains and losses included in earnings are reported in *Product revenue* on the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2009 and 2008.

The carrying amount and fair value of our long-term receivables and long-term debt at September 30, 2009 and December 31, 2008 were as follows:

	(In Millions)			
	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term receivables:				
Customer supplemental payments	$ 11.6	$ 9.1	$ -	$ -
ArcelorMittal USA - Ispat receivable	39.6	47.4	43.2	46.1
Asia Pacific rail credit receivable	-	-	0.2	0.2
Total long-term receivables (1)	$ 51.2	$ 56.5	$ 43.4	$ 46.3
Long-term debt:				
Senior notes	$ 325.0	$ 311.0	$ 325.0	$ 277.9
Term loan	200.0	200.0	200.0	200.0
Customer borrowings	4.6	4.6	5.4	5.2

Total long-term debt	$ 529.6	$ 515.6	$ 530.4	$ 483.1

(1) Includes current portion.

The terms of one of our North American 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 beginning in September 2009 at the higher of 9 percent or the prime rate plus 350 basis points. As of September 30, 2009, we have a receivable of $11.6 million recorded in *Other non-current assets* on the Statement of Unaudited Condensed Consolidated Financial Position reflecting the terms of this deferred payment arrangement. The fair value of the receivable of $9.1 million at September 30, 2009 is based on a discount rate of 6.9 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 $39.6 million and $43.2 million at September 30, 2009 and December 31, 2008, respectively. The fair value of the receivable of $47.4 million and $46.1 million at September 30, 2009 and December 31, 2008, respectively, is based on a discount rate of 5.3 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 and approximate fair value. See NOTE 9 DEBT AND CREDIT FACILITIES for further information.

NOTE 9 DEBT AND CREDIT FACILITIES

The following represents a summary of our long-term debt as of September 30, 2009 and December 31, 2008:

($ in Millions)
September 30, 2009

Debt Instrument	Type	Average Annual Interest Rate	Final Maturity	Total Borrowing Capacity	Total Principal Outstanding
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)
Credit Facility:					
Term loan	Variable	1.02 % (1)	2012	200.0	(200.0)
Revolving loan	Variable	- % (1)	2012	600.0	- (2)
Total				$ 1,125.0	$ (525.0)

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December 31, 2008

Debt Instrument	Type	Average Annual Interest Rate	Final Maturity	Total Borrowing Capacity	Total Principal Outstanding	
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)	
Credit Facility:						
Term loan	Variable	5.02 % (1)	2012	200.0	(200.0)	
Revolving loan	Variable	- % (1)	2012	600.0	-	(2)
Total				$ 1,125.0	$ (525.0)	

(1) After the effect of interest rate hedging, the average annual borrowing rate for outstanding revolving and term loans was 3.12% and 5.10% as of September 30, 2009 and December 31, 2008, respectively.

(2) As of September 30, 2009 and December 31, 2008, no revolving loans were drawn under the credit facility; however, the principal amount of letter of credit obligations totaled $20.0 million and $21.5 million, respectively, reducing available borrowing capacity to $580.0 million and $578.5 million, respectively.

The terms of the private placement senior notes and the credit facility 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 September 30, 2009 and December 31, 2008, we were in compliance with the financial covenants in both the note purchase agreement and the credit agreement.

Effective October 29, 2009, we amended the terms of our $800 million credit facility. The amendment results in, among other things, improved borrowing flexibility, the addition of multi-currency letters of credit, and more liberally defined financial covenants and debt restrictions. An increase in annual LIBOR margin of 50 basis points resulted from this amendment. Refer to NOTE 20 SUBSEQUENT EVENTS for further information.

Short-term Facilities

On February 9, 2009, Asia Pacific Iron Ore amended its A$40 million ($34.9 million) multi-option facility. The original facility provided credit for short-term working capital and contingent instruments, such as performance bonds. The amended facility included an additional A$80 million ($69.8 million) cash facility, which expired on August 31, 2009. The outstanding bank commitments on the remaining A$40 million multi-option facility totaled A$35.7 million ($31.2 million) and A$27.2 million

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($18.8 million) in performance bonds, reducing borrowing capacity to A$4.3 million ($3.7 million) and A$12.8 million ($8.8 million) at September 30, 2009 and December 31, 2008, respectively. The facility agreement contains financial covenants as follows: (1) debt to earnings ratio and (2) interest coverage ratio. As of September 30, 2009 and December 31, 2008, we were in compliance with the financial covenants of the credit facility agreement. We have provided a guarantee of the facility, along with certain of our Australian subsidiaries.

Latin America

At September 30, 2009 and December 31, 2008, Amapá had total project debt outstanding of approximately $553 million and $493 million, respectively, for which we have provided a several guarantee on our 30 percent share. Our estimate of the aggregate fair value of the outstanding guarantee is $6.7 million as of September 30, 2009, which is reflected in *Other Liabilities* on the Statements of Unaudited Condensed Consolidated Financial Position. On October 1, 2009, $20.9 million of short-term debt was repaid, reducing the total project debt outstanding to approximately $532 million. Amapá is currently in violation of certain operating and financial loan covenants contained in the debt agreements. However, Amapá and its lenders have agreed to suspend these covenants through November 8, 2009 related to the remaining debt outstanding. If Amapá is unable to either renegotiate the terms of the debt agreements or obtain further extension of the compliance waivers, violation of the operating and financial loan covenants may result in the lenders calling the debt, thereby requiring us to recognize and repay our share of the debt in accordance with the provisions of the guarantee arrangement.

Refer to NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS for further information.

NOTE 10 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 $5.1 million and $19.1 million, respectively, for the three and nine months ended September 30, 2009, compared with $5.1 million and $15.0 million, respectively, for the same periods in 2008.

Future minimum payments under capital leases and non-cancellable operating leases at September 30, 2009 are as follows:

	(In Millions)	
	Capital Leases	Operating Leases
2009 (October 1 - December 31)	$ 6.0	$ 6.1
2010	23.7	22.2
2011	23.4	18.5
2012	23.1	14.6
2013	21.6	15.3
2014 and thereafter	87.7	23.4
Total minimum lease payments	185.5	$ 100.1
Amounts representing interest	51.5	
Present value of net minimum lease payments	$ 134.0	

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NOTE 11 ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS

We had environmental and mine closure liabilities of $117.7 million and $117.1 million at September 30, 2009 and December 31, 2008, respectively. Payments in the first nine months of 2009 were $1.3 million compared with $6.2 million for the full year in 2008. The following is a summary of the obligations at September 30, 2009 and December 31, 2008:

	(In Millions)	
	September 30, 2009	December 31, 2008
Environmental	$ 14.7	$ 16.4
Mine closure		
LTVSMC	14.2	13.9
Operating mines:		
North American Iron Ore	46.9	44.1
North American Coal	26.0	31.1
Asia Pacific Iron Ore	10.9	7.8
Other	5.0	3.8
Total mine closure	103.0	100.7
Total environmental and mine closure obligations	117.7	117.1
Less current portion	7.7	12.2
Long term environmental and mine closure obligations	$ 110.0	$ 104.9

<u>Environmental</u>

The Rio Tinto Mine Site

The Rio Tinto Mine Site is a historic underground copper mine located near Mountain City, Nevada, where tailings were placed in Mill Creek, a tributary to the Owyhee River. Site investigation and remediation work is being conducted in accordance with a consent order between the Nevada DEP and the RTWG composed of Cliffs, Atlantic Richfield Company, Teck Cominco American Incorporated, and E. I. du Pont de Nemours and Company. As of September 30, 2009, the estimated costs of the available remediation alternatives currently range from approximately $10.0 million to $30.5 million in total for all potentially responsible parties. In recognition of the potential for an NRD claim, the parties are actively pursuing a global settlement that would include the EPA and encompass both the remedial action and the NRD issues.

During the first quarter of 2009, the parties reached agreement on the allocation percentages for a negotiated remedy, which was formalized in an allocation agreement in the second quarter of 2009. While a global settlement with the EPA has not been finalized, we expect an agreement will be reached in 2009. We have decreased our reserve in the third quarter of 2009 by approximately $1.0 million based upon the allocation agreement. We have an environmental liability of $9.5 million and $10.7 million on the Statements of Condensed Consolidated Financial Position as of September 30, 2009 and December 31, 2008, respectively, related to this issue.

Michigan Operations

In 2008 and 2009, a series of unpermitted releases of tailings and tailings water occurred at the Tilden mine. Additionally, during 2008, one such release occurred at the Empire mine. The MDEQ has issued violation notices for certain of these releases and is considering further enforcement

action. We have undertaken, and will continue to undertake, certain clean-up actions and certain operational control changes at both mines, the costs for which have not been material to date. We are in discussions with the MDEQ about implementing corrective action, which we currently anticipate could result in expending $8 million to $10 million in capital, primarily for the replacement of a tailings line at Tilden during 2009 and 2010. These costs and the corrective actions are subject to change based on a number of factors, including the results of our discussions with the MDEQ regarding the planned actions. We also anticipate that we will enter into consent orders with the MDEQ resolving these violations and that the MDEQ will impose a civil penalty in an amount that cannot be reasonably determined at this time. However, we do not believe that any such civil penalty will have a material adverse effect on our results of operations, financial position or cash flows.

Mine Closure

The mine closure obligations are for our four consolidated North American operating iron ore mines, our two operating North American coal mining complexes, our Asia Pacific operating iron ore mines, the coal mine at Sonoma and a closed operation formerly known as LTVSMC.

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 operating mines for the nine months ended September 30, 2009 and the year ended December 31, 2008:

	(In Millions)	
	September 30, 2009	December 31, 2008 [1]
Asset retirement obligation at beginning of period	$ 86.8	$ 96.0
Accretion expense	5.0	7.3
Reclassification adjustments	-	1.0
Exchange rate changes	3.2	(3.1)
Revision in estimated cash flows	(6.2)	(14.4)
Asset retirement obligation at end of period	$ 88.8	$ 86.8

[1] Represents a 12-month rollforward of our asset retirement obligation at December 31, 2008.

NOTE 12 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The following are the components of defined benefit pension and OPEB expense for the three and nine months ended September 30, 2009 and 2008:

Defined Benefit Pension Expense

(In Millions)	
Three Months Ended September 30,	Nine Months Ended September 30,

	2009	2008	2009	2008
Service cost	$ 4.2	$ 3.2	$ 10.7	$ 9.5
Interest cost	12.2	10.2	32.0	30.7
Expected return on plan assets	(10.6)	(12.3)	(27.9)	(36.9)
Amortization:				
Prior service costs	1.3	1.0	3.2	2.9
Net actuarial losses	7.1	2.5	20.1	7.6
Net periodic benefit cost	$ 14.2	$ 4.6	$ 38.1	$ 13.8

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Other Postretirement Benefits Expense

	(In Millions)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Service cost	$ 1.8	$ 0.8	$ 4.1	$ 2.3
Interest cost	5.5	3.8	14.2	11.5