

CLEVELAND CLIFFS INC
Form 10-Q
June 08, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007

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

CLEVELAND-CLIFFS INC

(Exact Name of Registrant as Specified in Its Charter)

Ohio
(State or Other Jurisdiction of

34-1464672
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

1100 Superior Avenue, Cleveland, Ohio 44114-2544

(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 NO

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

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Large accelerated filer Accelerated filer Non-accelerated filer

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

YES NO

As of June 7, 2007, there were 41,020,105 Common Shares (par value \$.25 per share) outstanding.

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EX-31(b)	Section 302 Certification of Chief Financial Officer
EX-32(a)	Section 906 Certification of Chief Executive Officer
EX-32(b)	Section 906 Certification of Chief Financial Officer

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

Abbreviation or acronym	Term
Amapa	MMX Amapa Mineracao Limitada
APBO	Accumulated other postretirement benefit obligation
AEPA	Australian Environmental Protection Authority
Centennial Amapa	Centennial Asset Participacoes S.A.
CEO	Chief Executive Officer
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CFO	Chief Financial Officer
Cockatoo Island	Cockatoo Island Joint Venture
Dofasco	Dofasco Inc
Consent Order	Administrative Order by Consent
Empire	Empire Iron Mining Partnership
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation
FSP	FASB Staff Position
Hibbing	Hibbing Taconite Company
LIBOR	London Interbank Offered Rate
LTVSMC	LTV Steel Mining Company
MMBTU	Million Million British Thermal Units
MMX	MMX Mineracao e Metalicos S.A.
NDEP	Nevada Department of Environmental Protection
Northshore	Northshore Mining Company
NRD	Natural Resource Damages
OPEB	Other postretirement benefits
PBO	Projected Benefit Obligation
Portman	Portman Limited
PRP	Potentially responsible party
RTWG	Rio Tinto Working Group
SEC	United States Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
Stelco	Stelco Inc.
Sonoma	Sonoma Coal Project
Tilden	Tilden Mining Company L.C.
Tonne	Metric ton
United Taconite	United Taconite LLC
USW	United Steelworkers of America
VEBA	Voluntary Employee Benefit Association trusts
VNQDC Plan	Voluntary Non-Qualified Deferred Compensation Plan
Wabush	Wabush Mines Joint Venture

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Explanatory Note

On May 25, 2007, the Company filed its annual report on SEC Form 10-K for the year ended December 31, 2006. The report was delayed until the completion of a comprehensive review of the Company's application of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, in relation to its long-term North American pellet supply agreements. The Company's filing of its SEC Form 10-Q for the period ended March 31, 2007 was delayed until after the SEC Form 10-K was filed.

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ITEM 1 - FINANCIAL STATEMENTS

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED OPERATIONS

	(In Millions, Except Per Share Amounts) Three Months Ended March 31	
	2007	2006
REVENUES FROM PRODUCT SALES AND SERVICES		
Iron ore	\$ 266.2	\$ 244.5
Freight and venture partners cost reimbursements	59.3	61.9
	325.5	306.4
COST OF GOODS SOLD AND OPERATING EXPENSES	(263.7)	(251.0)
SALES MARGIN	61.8	55.4
OTHER OPERATING INCOME (EXPENSE)		
Royalties and management fee revenue	2.2	2.6
Administrative, selling and general expenses	(14.2)	(9.8)
Miscellaneous - net	(4.9)	(2.0)
	(16.9)	(9.2)
OPERATING INCOME	44.9	46.2
OTHER INCOME (EXPENSE)		
Gain on sale of assets to PolyMet	.5	.3
Interest income	5.3	4.3
Interest expense	(1.0)	(1.0)
Other - net	.8	.2
	5.6	3.8
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	50.5	50.0
INCOME TAX EXPENSE	(13.5)	(9.9)
MINORITY INTEREST (net of tax \$1.9 and \$1.0)	(4.5)	(2.4)
INCOME FROM CONTINUING OPERATIONS	32.5	37.7
INCOME FROM DISCONTINUED OPERATIONS (net of tax \$.1)		.2
NET INCOME	32.5	37.9
PREFERRED STOCK DIVIDENDS	(1.4)	(1.4)
INCOME APPLICABLE TO COMMON SHARES	\$ 31.1	\$ 36.5
EARNINGS PER COMMON SHARE - BASIC		
Continuing operations	\$.77	\$.84

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EARNINGS PER COMMON SHARE - BASIC	\$.77	\$.84
EARNINGS PER COMMON SHARE - DILUTED		
Continuing operations	\$.62	\$.69
EARNINGS PER COMMON SHARE - DILUTED	\$.62	\$.69
AVERAGE NUMBER OF SHARES (IN THOUSANDS)		
Basic	40,608	43,698
Diluted	52,177	55,362

See notes to unaudited condensed consolidated financial statements.

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CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CONDENSED CONSOLIDATED FINANCIAL POSITION

	(In Millions)	
	March 31 2007 (Unaudited)	December 31 2006
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 118.8	\$ 351.7
Trade accounts receivable - net	23.0	28.3
Receivables from associated companies	9.6	4.0
Product inventories	279.5	150.3
Work in process inventories	67.3	50.6
Supplies and other inventories	67.9	77.5
Deferred and refundable taxes	9.7	9.7
Derivative assets	37.0	32.9
Other	81.5	77.3
TOTAL CURRENT ASSETS	694.3	782.3
PROPERTIES		
Allowances for depreciation and depletion	(244.7)	(222.4)
NET PROPERTIES	907.7	884.9
OTHER ASSETS		
Long-term receivables	42.3	43.7
Prepaid pensions - salaried	1.4	2.2
Deferred income taxes	106.2	107.0
Deposits and miscellaneous	95.9	83.7
Investments in ventures	136.3	7.0
Marketable securities	27.5	28.9
TOTAL OTHER ASSETS	409.6	272.5
TOTAL ASSETS	\$ 2,011.6	\$ 1,939.7

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CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CONDENSED CONSOLIDATED FINANCIAL POSITION (Continued)

	(In Millions)	
	March 31 2007 (Unaudited)	December 31 2006
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 103.7	\$ 139.0
Accrued employment costs	39.7	48.0
Other postretirement benefits	18.1	18.3
Accrued expenses	26.9	28.1
Income taxes	23.3	29.1
State and local taxes	19.4	25.6
Environmental and mine closure obligations	8.2	8.8
Payables to associated companies	1.8	3.4
Deferred revenue	84.3	62.6
Other	16.4	12.0
TOTAL CURRENT LIABILITIES	341.8	374.9
PENSIONS	140.4	140.4
OTHER POSTRETIREMENT BENEFITS	132.4	139.0
ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS	96.6	95.1
DEFERRED INCOME TAXES	121.4	117.9
REVOLVING CREDIT FACILITY	50.0	
OTHER LIABILITIES	78.4	68.5
TOTAL LIABILITIES	961.0	935.8
MINORITY INTEREST	100.2	85.8
3.25% REDEEMABLE CUMULATIVE CONVERTIBLE PERPETUAL PREFERRED STOCK - ISSUED 172,500 SHARES	172.3	172.3
SHAREHOLDERS' EQUITY		
Common Shares - par value \$.25 a share		
Authorized - 112,000,000 shares;		
Issued - 67,311,764 shares	16.8	16.8
Capital in excess of par value of shares	100.1	103.2
Retained earnings	1,096.7	1,078.5
Cost of 26,286,352 Common Shares in treasury (2006 - 23,196,698 shares)	(283.2)	(282.8)
Accumulated other comprehensive loss	(152.3)	(169.9)
TOTAL SHAREHOLDERS' EQUITY	778.1	745.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,011.6	\$ 1,939.7

See notes to unaudited condensed consolidated financial statements.

Table of Contents**CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES****STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED CASH FLOWS**

	(In Millions)	
	Three Months Ended	
	March 31	
	2007	2006
CASH FLOW FROM CONTINUING OPERATIONS		
OPERATING ACTIVITIES		
Net income	\$ 32.5	\$ 37.9
Less: Income from discontinued operations		(.2)
Income from continuing operations	32.5	37.7
Depreciation and amortization	20.7	13.3
Minority interest	4.5	2.4
Share-based compensation	.2	(5.1)
Environmental and closure obligations	.7	(3.3)
De		