

CLIFFS NATURAL RESOURCES INC.

Form 10-Q

May 01, 2009

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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, 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  
(State or Other Jurisdiction of

Incorporation or Organization)

34-1464672  
(I.R.S. Employer

Identification No.)

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

44114-2315  
(Zip Code)

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

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

YES ☒

NO ☐

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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 ☐

NO ☐

\* The registrant has not yet been phased into the interactive data requirements.

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 ☒ 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 ☒

As of April 27, 2009, there were 113,725,151 Common Shares (par value \$0.125 per share) outstanding.

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EX-32(a) Section 906 Certification of Chief Executive 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 Cliffs Natural Resources Inc. and subsidiaries, collectively. References to A\$ or AUD refer to Australian currency, C\$ to Canadian currency and \$ to United States currency.

<b>Abbreviation or acronym</b>	<b>Term</b>
Amapá	Anglo Ferrous Amapá Mineração Ltda. and Anglo Ferrous Logística Amapá Ltda.
Anglo	Anglo American plc
APB	Accounting Principles Board
ARB	Accounting Research Bulletin
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
EITF	Emerging Issues Task Force
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
FSP	FASB Staff Position
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
MMBTU	Million British Thermal Units
MMX	MMX Mineração e Metálicos S.A.
MPCA	Minnesota Pollution Control Agency
Northshore	Northshore Mining Company
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
SFAS	Statement of Financial Accounting Standards
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
Vale	Companhia Vale do Rio Doce
VEBA	Voluntary Employee Benefit Association trusts

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VIE  
VNQDC Plan  
Wabush

Variable interest entity  
Voluntary Non-Qualified Deferred Compensation Plan  
Wabush Mines Joint Venture

Table of Contents**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 March 31,	
	2009	2008
<b>REVENUES FROM PRODUCT SALES AND SERVICES</b>		
Product	\$ 421.1	\$ 412.0
Freight and venture partners cost reimbursements	43.7	82.4
	464.8	494.4
<b>COST OF GOODS SOLD AND OPERATING EXPENSES</b>	(422.4)	(412.0)
<b>SALES MARGIN</b>	42.4	82.4
<b>OTHER OPERATING INCOME (EXPENSE)</b>		
Royalties and management fee revenue	2.4	3.8
Selling, general and administrative expenses	(31.8)	(44.6)
Miscellaneous - net	(1.6)	1.0
	(31.0)	(39.8)
<b>OPERATING INCOME</b>	11.4	42.6
<b>OTHER INCOME (EXPENSE)</b>		
Changes in fair value of foreign currency contracts, net	(3.3)	-
Interest income	3.4	5.6
Interest expense	(9.3)	(7.2)
Other non-operating income - net	0.5	-
	(8.7)	(1.6)
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY LOSS FROM VENTURES</b>	2.7	41.0
<b>PROVISION FOR INCOME TAXES</b>	(1.1)	(14.3)
<b>EQUITY LOSS FROM VENTURES</b>	(9.2)	(6.9)
<b>NET INCOME (LOSS)</b>	(7.6)	19.8
<b>LESS: NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	(0.2)	3.1
<b>NET INCOME (LOSS) ATTRIBUTABLE TO CLIFFS</b>	(7.4)	16.7
<b>PREFERRED STOCK DIVIDENDS</b>	-	(0.9)
<b>INCOME (LOSS) APPLICABLE TO COMMON SHARES</b>	\$ (7.4)	\$ 15.8
	\$ (0.07)	\$ 0.18

**EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO CLIFFS  
SHAREHOLDERS - BASIC**

<b>EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - DILUTED</b>	<b>\$</b>	<b>(0.07)</b>	<b>\$</b>	<b>0.16</b>
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**AVERAGE NUMBER OF SHARES (IN THOUSANDS)**

<b>Basic</b>	<b>113,240</b>	<b>89,936</b>
<b>Diluted</b>	<b>113,240</b>	<b>104,916</b>

<b>CASH DIVIDENDS PER SHARE</b>	<b>\$</b>	<b>0.0875</b>	<b>\$</b>	<b>0.0875</b>
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*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)	
	March 31, 2009 (Unaudited)	December 31, 2008
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 97.3	\$ 179.0
Accounts receivable	79.6	68.5
Inventories	328.9	265.4
Supplies and other inventories	94.1	101.2
Derivative assets	30.2	76.9
Other current assets	162.4	170.7
TOTAL CURRENT ASSETS	792.5	861.7
PROPERTY, PLANT AND EQUIPMENT, NET	2,382.4	2,456.1
OTHER ASSETS		
Investments in ventures	317.4	305.3
Intangible assets, net	107.4	109.6
Deferred income taxes	251.2	251.2
Other non-current assets	174.9	127.2
TOTAL OTHER ASSETS	850.9	793.3
TOTAL ASSETS	\$ 4,025.8	\$ 4,111.1
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 159.8	\$ 201.0
Accrued expenses	146.3	145.0
Taxes payable	131.2	144.8
Derivative liabilities	142.7	194.3
Deferred revenue	129.3	86.8
Other current liabilities	71.3	73.0
TOTAL CURRENT LIABILITIES	780.6	844.9
POSTEMPLOYMENT BENEFIT LIABILITIES	435.6	448.0
SENIOR NOTES	325.0	325.0
TERM LOAN	200.0	200.0
BELOW-MARKET SALES CONTRACTS	183.6	183.6
OTHER LIABILITIES	357.0	355.6
TOTAL LIABILITIES	2,281.8	2,357.1
3.25% REDEEMABLE CUMULATIVE CONVERTIBLE PERPETUAL PREFERRED STOCK - ISSUED 172,500 SHARES 205 SHARES OUTSTANDING IN 2008	-	0.2
<u>EQUITY</u>		
CLIFFS SHAREHOLDERS' EQUITY		
Common Shares - par value \$0.125 per share		
Authorized - 224,000,000 shares;		

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Issued - 134,623,528 shares; Outstanding - 113,721,069 shares	<b>16.8</b>	16.8
Capital in excess of par value of shares	<b>439.7</b>	442.2
Retained Earnings	<b>1,782.7</b>	1,799.9
Cost of 20,902,459 common shares in treasury (2008 - 21,114,538 shares)	<b>(112.8)</b>	(113.8)
Accumulated other comprehensive loss	<b>(388.8)</b>	(394.6)
 TOTAL CLIFFS SHAREHOLDERS EQUITY	 <b>1,737.6</b>	 1,750.5
 NONCONTROLLING INTEREST	 <b>6.4</b>	 3.3
 TOTAL EQUITY	 <b>1,744.0</b>	 1,753.8
 TOTAL LIABILITIES AND EQUITY	 <b>\$ 4,025.8</b>	 \$ 4,111.1

*See notes to unaudited condensed consolidated financial statements.*

**Table of Contents****CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES****STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED CASH FLOWS**

	<b>(In Millions)</b>	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOW FROM OPERATIONS</b>		
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (7.6)	\$ 19.8
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation, depletion and amortization	55.5	38.1
Derivatives and currency hedges	(18.6)	(10.3)
Changes in deferred revenue	42.5	-
Pensions and other postretirement benefits	(3.3)	(2.6)
Deferred income taxes	(2.6)	(2.4)
Environmental and mine closure obligations	0.5	(0.4)
Loss (gain) on sale of assets	2.1	(0.5)
Foreign exchange loss	3.4	-
Share-based compensation	3.4	4.4
Excess tax benefit from share-based compensation	(3.1)	(3.2)
Income tax uncertainties	(2.2)	-
Equity loss in ventures (net of tax)	9.2	6.9
Other	(0.3)	0.2
Changes in operating assets and liabilities:		
Receivables and other assets	2.2	(2.0)
Product inventories	(66.9)	(130.9)
Payables and accrued expenses	(59.0)	(37.1)
Net cash used by operating activities	(44.8)	(120.0)
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(30.4)	(34.2)
Investments in ventures	(6.3)	(1.1)
Additional investment in Amapá	(18.3)	-
Redemption of marketable securities	-	9.6
Proceeds from sale of assets	23.8	14.6
Net cash used by investing activities	(31.2)	(11.1)
<b>FINANCING ACTIVITIES</b>		
Borrowings under credit facility	150.0	180.0
Repayments under credit facility	(150.0)	(20.0)
Common stock dividends	(9.9)	(7.9)
Preferred stock dividends	-	(1.1)
Repayment of other borrowings	(3.0)	(0.8)
Excess tax benefit from share-based compensation	3.1	3.2
Contributions by joint ventures, net	3.3	0.4
Net cash from (used by) financing activities	(6.5)	153.8
EFFECT OF EXCHANGE RATE CHANGES ON CASH	0.8	6.7
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(81.7)	29.4

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<b>179.0</b>	157.1
CASH AND CASH EQUIVALENTS AT END OF YEAR	<b>\$ 97.3</b>	<b>\$ 186.5</b>

*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**

**March 31, 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. 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. All common shares and per share amounts have been adjusted retroactively to reflect the two-for-one stock split effective May 15, 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: