

CLIFFS NATURAL RESOURCES INC.

Form 10-Q

July 26, 2012

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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 June 30, 2012

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                                    | (I.R.S. Employer    |
| Incorporation or Organization)                                     | 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.

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YES

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

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  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

The number of shares outstanding of the registrant's Common Shares, par value \$0.125 per share, was 142,492,567 as of July 23, 2012.

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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>   |
|--------------------------------|---|
| Algoma                         | Essar Steel Algoma Inc.   |
| Amapá                          | Anglo Ferrous Amapá Mineração Ltda. and Anglo Ferrous Logística Amapá Ltda.   |
| ArcelorMittal                  | ArcelorMittal (as the parent company of ArcelorMittal Mines Canada, ArcelorMittal USA and ArcelorMittal Dofasco, as well as, many other subsidiaries)   |
| ArcelorMittal USA              | ArcelorMittal USA LLC (including many of its North American affiliates, subsidiaries and representatives. References to ArcelorMittal USA comprise all such relationships unless a specific ArcelorMittal USA entity is referenced) |
| ATO                            | Australian Taxation Office  |
| AusQuest                       | AusQuest Limited  |
| Bloom Lake                     | The Bloom Lake Iron Ore Mine Limited Partnership  |
| C.F.R.                         | Cost and Freight  |
| CLCC                           | Cliffs Logan County Coal LLC  |
| Cliffs Chromite Far North Inc. | Entity previously known as Spider Resources Inc.  |
| Cliffs Chromite Ontario Inc.   | Entity previously known as Freewest Resources Canada Inc.   |
| Cockatoo Island                | Cockatoo Island Joint Venture   |
| Consolidated Thompson          | Consolidated Thompson Iron Mining Limited (now known as Cliffs Quebec Iron Mining Limited)  |
| CQIM                           | Cliffs Quebec Iron Mining Limited   |
| CSAPR                          | U.S. Cross-State Air Pollution Rule   |
| DEP                            | U.S. Department of Environment Protection   |
| Dodd-Frank Act                 | Dodd-Frank Wall Street Reform and Consumer Protection Act   |
| Empire                         | Empire Iron Mining Partnership  |
| EPA                            | U.S. Environmental Protection Agency  |
| Exchange Act                   | Securities Exchange Act of 1934   |
| FASB                           | Financial Accounting Standards Board  |
| Fe                             | Iron  |
| FIP                            | Federal Implementation Plan   |
| FMSH Act                       | U.S. Federal Mine Safety and Health Act 1977  |
| F.O.B.                         | Free on board   |
| GAAP                           | Accounting principles generally accepted in the United States   |
| GHG                            | Green house gas   |
| Hibbing                        | Hibbing Taconite Company  |
| IASB                           | International Accounting Standards Board  |
| ICE Plan                       | Amended and Restated Cliffs 2007 Incentive Equity Plan, As Amended  |
| Ispat                          | Ispat Inland Steel Company  |
| LCM                            | Lower of cost or market   |
| LIBOR                          | London Interbank Offered Rate   |
| LTVSMC                         | LTV Steel Mining Company  |
| MMBtu                          | Million British Thermal Units   |
| MPCA                           | Minnesota Pollution Control Agency  |
| MRRT                           | Minerals Resource Rent Tax  |
| MSHA                           | Mine Safety and Health Administration   |
| NO <sub>2</sub>                | Nitrogen dioxide  |
| Northshore                     | Northshore Mining Company   |
| NOV                            | Notice of Violation   |
| NPDES                          | National Pollutant Discharge Elimination System, authorized by the U.S. Clean Water Act   |
| Oak Grove                      | Oak Grove Resources, LLC  |
| OCI                            | Other comprehensive income  |
| OPEB                           | Other postretirement benefits   |

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| <b>Abbreviation or acronym</b> | <b>Term</b>  |
|--------------------------------|--|
| Pinnacle                       | Pinnacle Mining Company, LLC   |
| renewaFUEL                     | renewaFUEL, LLC (now known as Cliffs Michigan Biomass, LLC)  |
| SEC                            | United States Securities and Exchange Commission   |
| Silver Bay Power               | Silver Bay Power Company   |
| SO <sub>2</sub>                | Sulfur dioxide   |
| Sonoma                         | Sonoma Coal Project  |
| Tilden                         | Tilden Mining Company  |
| TSR                            | Total Shareholder Return   |
| United Taconite                | United Taconite LLC  |
| U.S.                           | United States of America   |
| Wabush                         | Wabush Mines Joint Venture   |
| WISCO                          | Wugang Canada Resources Investment Limited, a subsidiary of Wuhan Iron and Steel (Group) Corporation |
| 2012 Equity Plan               | Cliffs 2012 Incentive Equity Plan  |

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## 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                      |                  | Six Months Ended |                  |
|  | June 30,<br>2012                        | 2011             | June 30,<br>2012 | 2011             |
| <b>REVENUES FROM PRODUCT SALES AND SERVICES</b>  |   |                  |                  |                  |
| Product  | \$ 1,546.6                              | \$ 1,705.0       | \$ 2,747.5       | \$ 2,838.0       |
| Freight and venture partners' cost reimbursements  | 79.4                                    | 100.8            | 143.2            | 151.0            |
|  | 1,626.0                                 | 1,805.8          | 2,890.7          | 2,989.0          |
| <b>COST OF GOODS SOLD AND OPERATING EXPENSES</b>   | <b>(1,176.7)</b>                        | <b>(1,074.2)</b> | <b>(2,137.9)</b> | <b>(1,657.9)</b> |
| <b>SALES MARGIN</b>  | <b>449.3</b>                            | <b>731.6</b>     | <b>752.8</b>     | <b>1,331.1</b>   |
| <b>OTHER OPERATING INCOME (EXPENSE)</b>  |   |                  |                  |                  |
| Selling, general and administrative expenses   | (83.5)                                  | (69.4)           | (146.5)          | (115.1)          |
| Consolidated Thompson acquisition costs  | -                                       | (18.0)           | -                | (22.9)           |
| Exploration costs  | (29.1)                                  | (18.2)           | (47.9)           | (28.8)           |
| Miscellaneous - net  | 28.6                                    | (8.2)            | 38.0             | (4.4)            |
|  | (84.0)                                  | (113.8)          | (156.4)          | (171.2)          |
| <b>OPERATING INCOME</b>  | <b>365.3</b>                            | <b>617.8</b>     | <b>596.4</b>     | <b>1,159.9</b>   |
| <b>OTHER INCOME (EXPENSE)</b>  |   |                  |                  |                  |
| Changes in fair value of foreign currency contracts, net                                   | -                                       | 50.4             | 0.3              | 106.7            |
| Interest expense   | (47.1)                                  | (81.3)           | (94.4)           | (119.7)          |
| Other non-operating income (expense)   | (0.5)                                   | 2.9              | 3.0              | 5.9              |
|  | (47.6)                                  | (28.0)           | (91.1)           | (7.1)            |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY LOSS FROM VENTURES</b> | <b>317.7</b>                            | <b>589.8</b>     | <b>505.3</b>     | <b>1,152.8</b>   |
| <b>INCOME TAX (EXPENSE) BENEFIT</b>  | <b>(42.9)</b>                           | <b>(150.4)</b>   | <b>167.9</b>     | <b>(292.6)</b>   |
| <b>EQUITY LOSS FROM VENTURES</b>   | <b>(0.5)</b>                            | <b>(11.3)</b>    | <b>(7.4)</b>     | <b>(8.3)</b>     |
| <b>INCOME FROM CONTINUING OPERATIONS</b>   | <b>274.3</b>                            | <b>428.1</b>     | <b>665.8</b>     | <b>851.9</b>     |
| <b>LOSS FROM DISCONTINUED OPERATIONS, net of tax</b>                                       | <b>-</b>                                | <b>(0.7)</b>     | <b>(0.1)</b>     | <b>(1.1)</b>     |
| <b>NET INCOME</b>  | <b>274.3</b>                            | <b>427.4</b>     | <b>665.7</b>     | <b>850.8</b>     |
| <b>LESS: INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>                                | <b>16.3</b>                             | <b>18.3</b>      | <b>31.9</b>      | <b>18.3</b>      |
| <b>NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS</b>                                      | <b>\$ 258.0</b>                         | <b>\$ 409.1</b>  | <b>\$ 633.8</b>  | <b>\$ 832.5</b>  |
| <b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - BASIC</b>               |   |                  |                  |                  |
| Continuing operations  | \$ 1.81                                 | \$ 2.95          | \$ 4.45          | \$ 6.07          |
| Discontinued operations  | -                                       | (0.01)           | -                | (0.01)           |
|  | \$ 1.81                                 | \$ 2.94          | \$ 4.45          | \$ 6.06          |

**EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS  
SHAREHOLDERS - DILUTED**

|                                |                |                |                |                |
|--------------------------------|----------------|----------------|----------------|----------------|
| <b>Continuing operations</b>   | <b>\$ 1.81</b> | <b>\$ 2.93</b> | <b>\$ 4.44</b> | <b>\$ 6.04</b> |
| <b>Discontinued operations</b> | <b>-</b>       | <b>(0.01)</b>  | <b>-</b>       | <b>(0.01)</b>  |
|                                | <b>\$ 1.81</b> | <b>\$ 2.92</b> | <b>\$ 4.44</b> | <b>\$ 6.03</b> |

**AVERAGE NUMBER OF SHARES (IN THOUSANDS)**

|  |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
| <b>Basic</b>                             | <b>142,380</b> | <b>139,000</b> | <b>142,303</b> | <b>137,243</b> |
| <b>Diluted</b>                           | <b>142,814</b> | <b>139,783</b> | <b>142,762</b> | <b>137,987</b> |
| <b>CASH DIVIDENDS DECLARED PER SHARE</b> | <b>\$ 0.63</b> | <b>\$ 0.14</b> | <b>\$ 0.91</b> | <b>\$ 0.28</b> |

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

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

|  | (In Millions)                  |          |                              |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|  | 2012                           | 2011     | 2012                         | 2011     |
| <b>NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS</b>          | <b>\$ 258.0</b>                | \$ 409.1 | <b>\$ 633.8</b>              | \$ 832.5 |
| <b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>                  |                                |          |                              |          |
| Pension and OPEB liability                                     | 7.1                            | 0.8      | 13.3                         | 9.5      |
| Unrealized net loss on marketable securities                   | (2.8)                          | (19.0)   | (0.5)                        | (19.2)   |
| Unrealized net gain (loss) on foreign currency translation     | (17.4)                         | 42.9     | (6.5)                        | 57.5     |
| Unrealized net gain (loss) on derivative financial instruments | (4.4)                          | 1.7      | (0.6)                        | 3.2      |
| <b>OTHER COMP</b>  |                                |          |                              |          |