

CLIFFS NATURAL RESOURCES INC.

FORM 10-Q (Quarterly Report)

Filed 05/13/96 for the Period Ending 03/31/96

Address	200 PUBLIC SQUARE STE. 3300 CLEVELAND, OH 44114-2315
Telephone	216-694-5700
CIK	0000764065
Symbol	CLF
SIC Code	1000 - Metal Mining
Industry	Metal Mining
Sector	Basic Materials
Fiscal Year	12/31

CLEVELAND CLIFFS INC

FORM 10-Q (Quarterly Report)

Filed 5/13/1996 For Period Ending 3/31/1996

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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 March 31, 1996
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
incorporation)

34-1464672
(I.R.S. Employer
Identification No.)

1100 Superior Avenue, Cleveland, Ohio 44114-2589
(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

As of May 3, 1996, there were 11,757,217 Common Shares (par value \$1.00 per share) outstanding.

PART I - FINANCIAL INFORMATION

CLEVELAND-CLIFFS INC

STATEMENT OF CONSOLIDATED INCOME

	(In Millions, Except Per Share Amounts) Three Months Ended March 31,	
	1996	1995
REVENUES:		
Product sales and services	\$47.9	\$51.3
Royalties and management fees	9.2	8.9
Total operating revenues	57.1	60.2
Investment income (securities)	2.2	2.6
Other income	0.5	0.8
TOTAL REVENUES	59.8	63.6
COSTS AND EXPENSES:		
Cost of goods sold and operating expenses	46.7	49.8
Administrative, selling and general expenses	3.8	3.1
Interest expense	1.2	1.7
Other expenses	2.8	1.9
TOTAL COSTS AND EXPENSES	54.5	56.5
INCOME BEFORE INCOME TAXES	5.3	7.1
Income taxes		
Currently payable	1.4	1.9
Deferred	0.3	0.2
TOTAL INCOME TAXES	1.7	2.1
NET INCOME	\$3.6	\$5.0
INCOME PER COMMON SHARE	\$0.30	\$0.41

See notes to financial statements

CLEVELAND-CLIFFS INC

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

	(In Millions)	
ASSETS	March 31, 1996	December 31, 1995
CURRENT ASSETS		
Cash and cash equivalents	\$ 119.1	\$ 139.9
Marketable securities	8.5	8.9
	127.6	148.8
Accounts receivable - net	27.4	61.8
Inventories:		
Finished products	80.0	38.0
Work in process	0.5	0.7
Supplies	16.0	17.0
	96.5	55.7
Deferred income taxes	14.1	14.1
Other	9.3	12.3
	274.9	292.7
TOTAL CURRENT ASSETS		
PROPERTIES		
Less allowances for depreciation and depletion	(141.7)	(140.0)
	120.7	120.0
TOTAL PROPERTIES		
INVESTMENTS IN ASSOCIATED COMPANIES		
	150.8	152.0
OTHER ASSETS		
Long-term investments	15.7	16.3
Deferred income taxes	11.0	11.2
Other	54.5	52.4
	81.2	79.9
TOTAL OTHER ASSETS		
TOTAL ASSETS		
	\$ 627.6	\$ 644.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
	\$ 85.8	\$ 103.5
LONG-TERM OBLIGATIONS		
	70.0	70.0
POST EMPLOYMENT BENEFITS		
	67.2	67.3
RESERVE FOR CAPACITY RATIONALIZATION		
	17.9	17.2
OTHER LIABILITIES		
	43.9	44.0
SHAREHOLDERS' EQUITY		
Preferred Stock		
Class A - No Par Value		
Authorized - 500,000 shares; Issued - None	--	--
Class B - No Par Value		
Authorized - 4,000,000 shares; Issued - None	--	--
Common Shares - Par Value \$1 a share		
Authorized - 28,000,000 shares	16.8	16.8
Issued - 16,827,941 shares		
Capital in excess of par value of shares	67.9	65.2
Retained income	385.9	386.1
Foreign currency translation adjustments	0.5	0.3
Net unrealized (loss) on marketable securities	(0.4)	0.1
Cost of 4,995,174 Common Shares in treasury (1995 - 4,998,674)	(123.8)	(123.8)
Unearned Compensation	(4.1)	(2.1)
	342.8	342.6
TOTAL SHAREHOLDERS' EQUITY		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		
	\$ 627.6	\$ 644.6

See notes to financial statements

CLEVELAND-CLIFFS INC

CONSOLIDATED STATEMENT OF CASH FLOWS

	Increase (Decrease) in Cash and Cash Equivalents for Three Months Ended March 31, (In Millions)	
	1996	1995
OPERATING ACTIVITIES		
Net income	\$3.6	\$5.0
Depreciation and amortization:		
Consolidated	1.7	1.4
Share of associated companies	2.6	2.7
Provision for deferred income taxes	0.3	0.3
Charges to capacity rationalization reserve	1.6	(1.1)
Other	(0.6)	(0.7)
	9.2	7.6
Total Before Changes in Operating Assets and Liabilities		
Changes in operating assets and liabilities	(22.3)	(2.9)
	(13.1)	4.7
NET CASH FROM (USED BY) OPERATING ACTIVITIES		
INVESTMENT ACTIVITIES		
Capital expenditures:		
Consolidated	(2.4)	(2.9)
Share of associated companies	(1.7)	(0.8)
Other		0.8
	(4.1)	(2.9)
NET CASH (USED BY) INVESTMENT ACTIVITIES		
FINANCING ACTIVITIES		
Dividends	(3.8)	(3.9)
Other		(0.2)
	(3.8)	(4.1)
NET CASH (USED BY) FINANCING ACTIVITIES		
EFFECT OF EXCHANGE RATE CHANGES ON CASH	0.2	(0.5)
	(20.8)	(2.8)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	139.9	140.6
	\$119.1	\$137.8
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Income taxes paid	\$0.7	\$2.5
Interest paid on debt obligations	\$ -	\$1.6

See notes to financial statements

CLEVELAND-CLIFFS INC

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1996

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the financial statement footnotes and other information in the Company's 1995 Annual Report on Form 10-K. In management's opinion, the quarterly unaudited financial statements present fairly the Company's financial position and results in accordance with generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

References to the "Company" mean Cleveland-Cliffs Inc and consolidated subsidiaries, unless otherwise indicated. Quarterly results are not necessarily representative of annual results due to seasonal and other factors.

Certain prior year amounts have been reclassified to conform to current year classifications.

NOTE B - MCLOUTH BANKRUPTCY

On September 29, 1995, McLouth Steel Products Corporation, Inc. ("McLouth"), a significant customer, petitioned for protection under Chapter 11 of the U.S. Bankruptcy Code. The Company had periodically extended credit to McLouth. At the time of the bankruptcy filing, the Company had an unreserved receivable from McLouth of \$5.0 million, secured by first liens on certain McLouth fixed assets. A \$2.7 million reserve against the receivable was recorded in September, 1995.

On March 15, 1996, McLouth announced that it had begun a shutdown of its operations due to inadequate funds. The Company had supplied approximately 120,000 tons of pellets per month to McLouth in 1996 prior to shutdown. The Company has reserved all financial exposure from the McLouth shutdown, except the \$2.3 million unreserved receivable which is secured by first liens on property and equipment.

NOTE C - ENVIRONMENTAL RESERVES

The Company has a formal code of environmental conduct which promotes environmental protection and restoration. The Company's obligations for known environmental problems at active mining operations, idle and closed mining operations and other sites have been recognized based on estimates of the cost of required investigation and remediation at each site. If the cost can only be estimated as a range of possible amounts with no specific amount being most likely, the minimum of the range is accrued in accordance with generally accepted accounting principles. Estimates may change as additional information becomes available. Actual cost incurred may vary from the estimates due to the inherent uncertainties involved. Any potential insurance recoveries have not been reflected in the determination of the financial reserve.

During the first three months of 1996, the Company provided \$.6 million of additional environmental reserves and made payments of \$.8 million. The additional environmental provision reflects the Company's continuing review of estimated restoration expense at all known sites.

At March 31, 1996, the Company has an environmental reserve of \$22.7 million, of which \$4.4 million is current. The reserve includes the Company's obligations related to:

* Federal and State Superfund and Clean Water Act sites where the Company is named as a potential responsible party, including Cliffs-Dow and Kipling sites in Michigan, the Summitville mine site in Colorado, and the Rio Tinto mine site in Nevada, all of which sites are independent of the Company's iron mining operations. The reserves are based on the Company's share of engineering estimates of remediation investigations and remediations prepared by outside consultants engaged by the potential responsible parties. The Company continues to evaluate the recommendations and other means for site clean-up. Significant site clean-up activities have taken place at Cliffs-Dow since late 1993.

* Wholly-owned active and idle operations, including Northshore mine and Silver Bay power plant in Minnesota, which was acquired on September 30, 1994. The Northshore/Silver Bay reserve is based on an environmental investigation conducted by the Company and an outside consultant in connection with the purchase.

* Other sites, including current and former operations, for which reserves are based on the Company's estimated cost of investigation and remediation of sites where expenditures may be incurred.

Estimated environmental expenditures under current laws and regulations are not expected to materially impact the Company's consolidated financial statements.

NOTE D - SHAREHOLDERS' EQUITY

The 1987 Incentive Equity Plan authorizes the Company to make grants and awards of stock options, stock appreciation rights and restricted or deferred stock awards to officers and key employees, for up to 839,045 Common Shares. The 1992 Incentive Equity Plan authorizes the Company to issue up to 595,000 Common Shares upon the exercise of Option Rights, as Restricted Shares, in payment of Performance Shares or Performance Units that have been earned, as Deferred Shares, or in payment of dividend equivalents paid with respect to awards made under the Plan. Such shares may be shares of original issuance or treasury shares or a combination of both. Transactions since December 31, 1995 are summarized as follows:

Stock Options:	1987 PLAN	1992 PLAN
Options outstanding as of 12/31/95	56,275	16,500
Granted	-0-	103,500
Exercised	(1,500)	-0-
Cancelled	-0-	-0-
	-----	-----
Options outstanding as of 3/31/96	54,775	120,000
Options exercisable as of 3/31/96	54,775	16,500
Restricted Awards:		
Awarded and restricted as of 12/31/95	2,253	8,601
Awarded	2,000	-0-
Vested	-0-	(72)
Cancelled	-0-	-0-
	-----	-----
Awarded and Restricted as of 3/31/96	4,253	8,529
Performance Shares:		
Allocated as of 12/31/95	-0-	88,767
Allocated	-0-	53,400
Forfeited	-0-	-0-
	-----	-----
Performance Shares as of 3/31/96	-0-	142,167
Reserved for future grants or awards as of 3/31/96	2,501	308,056

NOTE E - ACCOUNTING AND DISCLOSURE CHANGES

In March, 1995, the Financial Accounting Standards Board issued Statement 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", which requires the review for impairment of long-lived assets and certain identifiable intangibles whenever significant events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Although Statement 121 is effective for years beginning after December 15, 1995, the Company elected to adopt the provisions of this standard for the year ended December 31, 1995. The Company has determined that no event or change in circumstance occurred to indicate that a review for asset impairment was required.

In October, 1995, the Financial Accounting Standards Board issued Statement 123, entitled, "Accounting for Stock-Based Compensation," which establishes financial accounting and reporting standards for stock-based employee compensation plans. The standard is effective for years that begin after December 15, 1995. Management is evaluating the accounting and disclosure alternatives; however, no significant financial statement effect is expected.

MANAGEMENT'S DISCUSSION AND ANALYSIS
RESULTS OF OPERATIONS

COMPARISON OF FIRST QUARTER - 1996 AND 1995

Net income for the first quarter of 1996 was \$3.6 million, or \$.30 per share. Comparable earnings in the first quarter of 1995 were \$5.0 million, or \$.41 per share. First quarter results are traditionally not representative of annual results due to seasonal effects.

The \$1.4 million decrease in first quarter net income was mainly due to higher operating costs (principally the effect of unusually severe winter weather) and lower North American sales volume, partially offset by higher Australian earnings.

Australian pre-tax earnings were \$3.5 million and \$1.0 million in the first quarter 1996 and 1995, respectively. The Australian operation is projected to cease operations in the first quarter of 1997.

* * *

The Company's managed mines in North America produced 9.0 million tons of iron ore pellets in the first quarter, unchanged from 1995. Production shortfalls due to the adverse weather effects in the first quarter of 1996 were offset by the mid-1995 expansion of Northshore Mining Company capacity and additional production at certain mines.

The Company's North American iron ore pellet sales in the first quarter of 1996 were 1.0 million tons versus 1.2 million tons in 1995. This decline reflected seasonal variations and the shutdown of McLouth.

LIQUIDITY

At March 31, 1996, the Company had cash and marketable securities of \$127.6 million, including \$8.4 million dedicated to fund Australian mine obligations.

Since December 31, 1995, cash and marketable securities have decreased \$21.2 million due to increased working capital, \$22.7 million, capital expenditures, \$4.1 million, and dividends, \$3.8 million, partially offset by cash flow from operating activities, \$9.2 million. These changes since year-end 1995 reflect the normal seasonal pattern.

Capital additions and replacements, at the six Company-managed mines in North America, are projected to total approximately \$70 million in 1996. The Company's share of such 1996 expenditures is expected to approximate \$19 million.

On April 15, 1996, the Company announced an international joint venture to produce and market premium quality reduced iron briquettes to the steel industry. All definitive project documents were subsequently signed on May 8, 1996. The venture's participants, through subsidiaries, will be Cleveland-Cliffs Inc, 46.5 percent; The LTV Corporation, 46.5 percent; and Lurgi AG of Germany, 7 percent. The Company will manage the \$150 million project, to be located in Trinidad and Tobago, and will be responsible for sales by the venture company, Cliffs and Associates Limited. The Company's share of capital expenditures is estimated to be \$70 million, of which \$17 million is expected to be spent in 1996. No project financing is envisioned.

The Company has \$70.0 million of senior unsecured notes outstanding with a group of private investors. The notes which have a fixed interest rate of 7.0 percent are due in December, 2005. In addition, the Company has a \$100 million revolving credit agreement. No borrowings are outstanding under this agreement which expires on March 1, 2000. The Company was in compliance with all financial covenants and restrictions of the agreements.

In January, 1995, the Company commenced a program to repurchase up to 600,000 shares of its common shares in the open market or in negotiated transactions. Under the continuing program the Company has repurchased 389,200 shares through May 8, 1996.

The Company initially established a reserve in 1983 for expected costs of reorienting its mining joint ventures and facilities to adjust to changed market conditions. The reserve balance is principally for the planned shutdown of Savage River Mines in Tasmania, Australia, in the first quarter of 1997, and the permanent shutdown of the Republic Mine, which was announced on January 30, 1996. The Republic Mine has been idle since 1981. The Savage River Mines shutdown provision has been funded. Expenditures in 1996, for both Savage River Mines and Republic Mine, are expected to approximate \$10.5 million.

Pursuant to the Coal Industry Retiree Health Benefit Act of 1992 ("Benefit Act"), the Trustees of the UMWA Combined Benefit Fund have assigned responsibility to the Company for premium payments with respect to retirees, dependents, and "orphans" (unassigned beneficiaries), representing less than one-half of one percent of all "assigned beneficiaries" under the Benefit Act. The Company is making premium payments under protest and is contesting the assignments that it believes were incorrect. Premium payments by the Company were \$.2 million in the first quarter of 1996 and 1995. Additionally, in December, 1993, a complaint was filed by the Trustees of the United Mine Workers of America 1992 Benefit Plan against the Company demanding the payment of premiums on additional beneficiaries related to two formerly operated joint venture coal mines. The Company is actively contesting the complaint. Monthly premiums are being paid into an escrow account (80% by a former joint venture participant and 20% by the Company) by joint agreement with the Trustee, pending outcome of the litigation. At March 31, 1996, the Company's coal retiree reserve was \$10.1 million, of which \$1.5 million is expected to be paid in 1996. The reserve is reflected at present value, using a discount rate of 7.25%. Constitutional and other legal challenges to various provisions of the Benefit Act by other former coal producers are pending in the Federal Courts.

CAPITALIZATION

Long-term obligations effectively serviced by the Company at March 31, 1996, including the current portion, totalled \$76.6 million. The following table sets forth information concerning long-term obligations guaranteed and effectively serviced by the Company.

	(MILLIONS)			
	MARCH 31, 1996		DECEMBER 31, 1995	
	Obligations Effectively Serviced	Total Long-Term Obligations and Guarantees	Obligations Effectively Serviced	Total Long-Term Obligations and Guarantees
Consolidated	\$ 70.0	\$ 70.0	\$ 70.0	\$ 70.0
Share of Unconsolidated Affiliates	6.6	13.2*	6.3	12.9*
Total	\$ 76.6	\$ 83.2	\$ 76.3	\$ 82.9
Ratio to Shareholders' Equity	.2:1	.2:1	.2:1	.2:1

* Includes \$6.6 million of Empire Mine debt obligations which are serviced by LTV and Wheeling and mature in December, 1996.

At March 31, 1996, the Company was in compliance with all financial covenants and restrictions related to its medium-term, unsecured senior note agreement.

The fair value of the Company's long-term debt (which had a carrying value of \$70.0 million) at March 31, 1996, was estimated at \$67.9 million based on a discounted cash flow analysis and estimates of current borrowing rates.

Following is a summary of common shares outstanding:

	1996	1995	1994
March 31	11,832,767	12,031,392	12,079,885
June 30		11,892,092	12,080,560
September 30		11,898,467	12,091,310
December 31		11,829,267	12,099,860

OUTLOOK

North American steel producers continue to operate at high levels and analysts' forecasts of 1996 shipments approximate the 112 million tons shipped in 1995.

The North American iron ore industry is scheduled to produce 86 million tons of pellets in 1996, which is slightly more than 1995 and the highest output since 1981. Production at capacity levels in 1995 and 1996 has resulted from U.S. and Canadian integrated steel producers increasing pellet consumption to maximize blast furnace production. Pellet exports from eastern Canadian mines to Europe have also increased, creating a tighter interior North American market.

The six North American mines managed by the Company are operating at nearly full capacity and are scheduled to produce 40.6 million tons of iron ore up slightly from 39.6 million tons produced in 1995. The Company's share of scheduled production is 10.3 million tons in 1996 compared with 9.8 million tons in 1995.

The Company's North American iron ore pellet sales for the year 1996 are now estimated to be 10.6 million tons, up slightly from the 10.4 million tons sold in 1995. Average pellet price realization is expected to increase over 1995 due to the market strength and contractual increases.

BUSINESS RISK

The North American steel industry has experienced high operating rates in recent years. The Company's steel company partners and customers (with the exception of McLouth) have generally improved their financial condition as a result of higher earnings and increased equity capital.

The improvement in most steel companies' financial positions has reduced the major near-term business risk faced by the Company, i.e., the potential financial failure and shutdown of one or more of its significant customers or partners, with the resulting loss of ore sales or royalty and management fee income. However, if any such shutdown were to occur without mitigation through replacement sales or cost reduction, it would represent a significant adverse financial development to the Company. The iron mining business has high operating leverage because "fixed" costs are a large portion of the cost structure. Therefore, loss of sales or other income due to failure of a customer or partner would have an adverse income effect proportionately greater than the revenue effect.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) List of Exhibits - Refer to Exhibit Index on page 14.
- (b) There were no reports on Form 8-K filed during the three months ended March 31, 1996.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLEVELAND-CLIFFS INC

Date *May 13, 1996*

By /s/ J.S. Brinzo

J. S. Brinzo
Executive Vice President-Finance and
Principal Financial Officer

EXHIBIT INDEX

Exhibit
Number

Exhibit

11

Statement re computation of earnings per share

Filed
Herewith

27

Consolidated Financial Data Schedule submitted for
Securities and Exchange Commission information only

Exhibit 11

COMPUTATION OF EARNINGS PER SHARE

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

	(In Millions, Except Per Share Amounts) Three Months Ended MARCH 31	
	----- 1996 -----	----- 1995 -----
Primary and fully diluted earnings per share:		
Average shares outstanding	11.8	12.1
Net effect of dilutive stock options and performance shares based on treasury stock method using average market price	--	--
Average shares and equivalents	11.8 =====	12.1 =====
Net income applicable to average share and equivalents	\$ 3.6 =====	\$ 5.0 =====
Income per share	\$.30 =====	\$.41 =====

ARTICLE 5

This schedule contains summary financial information extracted from statements of consolidated income, consolidated financial position and computation of earnings per share and is qualified in its entirety by reference to such financial statements.

CIK: 0000764065

NAME: CLEVELAND CLIFFS, INC.

MULTIPLIER: 1,000,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	MAR 31 1996
CASH	128
SECURITIES	0
RECEIVABLES	27
ALLOWANCES	8
INVENTORY	97
CURRENT ASSETS	275
PP&E	262
DEPRECIATION	(142)
TOTAL ASSETS	628
CURRENT LIABILITIES	86
BONDS	0
PREFERRED MANDATORY	17
PREFERRED	0
COMMON	0
OTHER SE	326
TOTAL LIABILITY AND EQUITY	628
SALES	48
TOTAL REVENUES	60
CGS	47
TOTAL COSTS	51
OTHER EXPENSES	3
LOSS PROVISION	0
INTEREST EXPENSE	1
INCOME PRETAX	6
INCOME TAX	2
INCOME CONTINUING	4
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	4
EPS PRIMARY	.30
EPS DILUTED	0

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