CLEVELAND-CLIFFS INC.

Form 10-Q July 24, 2018 Table of Contents

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, 2018

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 Desistant of Specific

(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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 297,953,281 as of July 20, 2018.

Table of Contents

TABLE OF CONTENTS

	Page Number
DEFINITIONS	1
PART I - FINANCIAL INFORMATION Item 1. Financial Statements	
Statements of Unaudited Condensed Consolidated Financial Position as of June 30, 2018 and December 31, 2017	2
Statements of Unaudited Condensed Consolidated Operations for the Three and Six Months Ended June 30, 2018 and 2017	<u>4</u>
Statements of Unaudited Condensed Consolidated Comprehensive Income for the Three and Six Months Ended June 30, 2018 and 2017	<u>5</u>
Statements of Unaudited Condensed Consolidated Cash Flows for the Six Months Ended June 30, 2018 and 2017	<u>6</u>
Notes to Unaudited Condensed Consolidated Financial Statements Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Item 3. Quantitative and Qualitative Disclosures About Market Risk Item 4. Controls and Procedures	7 48 62 63
PART II - OTHER INFORMATION Item 1. Legal Proceedings	<u>64</u>
Item 1A. Risk Factors	<u>65</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Item 4. Mine Safety Disclosures Item 5. Other Information Item 6. Exhibits	65 66 66 66
Signatures	<u>67</u>

Table of Contents

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 Cleveland-Cliffs Inc. and subsidiaries, collectively. References to "A\$" or "AUD" refer to Australian currency, "C\$" or "CAD" to Canadian currency and "\$" to United States currency.

Abbreviation or

Term

acronym

A&R 2015 Amended and Restated Cliffs Natural Resources Inc. 2015 Equity and Incentive Compensation

Equity Plan

ABL Facility

Amended and Restated Syndicated Facility Agreement by and among Bank of America, N.A., as Administrative Agent and Australian Security Trustee, the Lenders that are parties hereto, as the Lenders, Cleveland-Cliffs Inc., as Parent and a Borrower, and the Subsidiaries of Parent party

hereto, as Borrowers dated as of March 30, 2015, and Amended and Restated as of February 28,

2018

EBITDA excluding certain items such as impacts of discontinued operations, foreign currency

Adjusted **EBITDA**

exchange remeasurement, extinguishment of debt and intersegment corporate allocations of SG&A

costs.

ArcelorMittal

ArcelorMittal (as the parent company of ArcelorMittal Mines Canada, ArcelorMittal USA and

ArcelorMittal Dofasco, as well as, many other subsidiaries)

Administrative Law Judge **ALJ AMT** Alternative Minimum Tax

ASC Accounting Standards Codification **ASU** Accounting Standards Update

Bloom Lake General Partner Limited and certain of its affiliates, including Cliffs Quebec Iron Bloom Lake

Group Mining ULC

Canadian Entities Bloom Lake Group, Wabush Group and certain other wholly-owned Canadian subsidiaries

CCAA Companies' Creditors Arrangement Act (Canada)

Compensation

Compensation and Organization Committee of the Board of Directors

Committee

Dodd-Frank Act Dodd-Frank Wall Street Reform and Consumer Protection Act

DR-grade Direct Reduction-grade

Earnings before interest, taxes, depreciation and amortization **EBITDA**

Empire Iron Mining Partnership Empire

Exchange Act Securities Exchange Act of 1934, as amended Financial Accounting Standards Board **FASB**

Fe Iron

FERC Federal Energy Regulatory Commission

U.S. Federal Mine Safety and Health Act 1977, as amended FMSH Act Accounting principles generally accepted in the United States **GAAP**

HBI Hot briquetted iron

Hibbing Taconite Company, an unincorporated joint venture Hibbing

Collective term for the operating deposits at Koolyanobbing, Mount Jackson and Windarling Koolyanobbing

Long ton 2,240 pounds

LTVSMC LTV Steel Mining Company

2,205 pounds Metric ton

MISO Midcontinent Independent System Operator, Inc.

Million British Thermal Units MMBtu

MSHA U.S. Mine Safety and Health Administration

FTI Consulting Canada Inc. Monitor

Net ton 2,000 pounds

Northshore Mining Company

OPEB Other postretirement employment benefits
Platts 62% Price Platts IODEX 62% Fe Fines Spot Price
SEC U.S. Securities and Exchange Commission

SG&A Selling, general and administrative Securities Act Securities Act of 1933, as amended

SSR System Support Resource
Tilden Tilden Mining Company L.C.

Topic 606 ASC Topic 606, Revenue from Contracts with Customers

TSR Total Shareholder Return
United Taconite United Taconite LLC
U.S. United States of America

U.S. Steel U.S Steel Corporation and all subsidiaries

Wabush Iron Co. Limited and Wabush Resources Inc., and certain of its affiliates, including

Wabush Group Wabush Mines (an unincorporated joint venture of Wabush Iron Co. Limited and Wabush

Resources Inc.), Arnaud Railway Company and Wabush Lake Railway Company

1

Table of Contents

PART I

Item 1. Financial Statements

Statements of Unaudited Condensed Consolidated Financial Position

Cleveland-Cliffs Inc. and Subsidiaries

	(In Millions)	
	June 30,	December 31,
	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$802.5	\$ 978.3
Accounts receivable, net	152.6	106.7
Inventories	256.4	138.4
Supplies and other inventories	88.6	88.8
Derivative assets	174.7	37.9
Current assets of discontinued operations	45.3	118.5
Loans to and accounts receivable from the Canadian Entities	_	51.6
Other current assets	26.8	24.4
TOTAL CURRENT ASSETS	1,546.9	1,544.6
PROPERTY, PLANT AND EQUIPMENT, NET	1,081.3	1,033.8
OTHER ASSETS		
Deposits for property, plant and equipment	85.7	17.8
Income tax receivable	219.9	235.3
Non-current assets of discontinued operations		20.3
Other non-current assets	117.7	101.6
TOTAL OTHER ASSETS	423.3	375.0
TOTAL ASSETS	\$3,051.5	\$ 2,953.4
(continued)		

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

2

Table of Contents

Statements of Unaudited Condensed Consolidated Financial Position

Cleveland-Cliffs Inc. and Subsidiaries - (Continued)

(In Millions)

June 30, December 31,

2018 2017

LIABILITIES

CURRENT LIABILITIES

Accounts payable \$119.0 \$ 99.5 Accrued expenses 85.1 79.1

Accrued interest 43.1