GREAT NORTHERN IRON ORE PROPERTIES
Form 10-Q
July 21, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Period Ended **June 30, 2005**

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 1-701

GREAT NORTHERN IRON ORE PROPERTIES

(Exact name of registrant as specified in its charter)

Minnesota	41-0788355
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
W-1290 First National Bank Building 332 Minnesota Street Saint Paul, Minnesota	55101-1361
(Address of principal executive office)	(Zip Code)

(651) 224-2385

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 periods 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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No o

Number of shares of beneficial interest outstanding on June 30, 2005: 1,500,000

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
GREAT NORTHERN IRON ORE PROPERTIES

CONDENSED BALANCE SHEETS

	June 30 2005	December 31 2004
	(Unaudited)	(Note)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 773,304	$ 788,779
United States Treasury securities	3,634,013	4,788,363
Royalties receivable	4,958,821	2,834,944
Prepaid expenses	38,278	2,760
TOTAL CURRENT ASSETS	9,404,416	8,414,846
NONCURRENT ASSETS		
United States Treasury securities	5,284,507	4,619,534
Prepaid pension expense	810,146	941,327
	6,094,653	5,560,861
PROPERTIES		
Mineral lands	38,691,707	38,587,307
Less allowances for depletion and amortization	34,394,575	34,289,965
	4,297,132	4,297,342
Building and equipment at cost, less allowances for accumulated depreciation (6/30/05 - $223,670; 12/31/04 - $214,287)	127,598	134,950
	4,424,730	4,432,292
	$ 19,923,799	$ 18,407,999
LIABILITIES AND BENEFICIARIES EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 98,492	$ 81,756
Distributions	3,600,000	3,600,000
TOTAL CURRENT LIABILITIES	3,698,492	3,681,756

NONCURRENT LIABILITIES	42,300	42,300
BENEFICIARIES EQUITY, including certificate holders equity, represented by 1,500,000 shares of beneficial interest authorized and outstanding, and reversionary interest	16,183,007	14,683,943
	$ 19,923,799	$ 18,407,999

Note: The balance sheet at December 31, 2004, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to condensed financial statements.

GREAT NORTHERN IRON ORE PROPERTIES

CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Revenues:				
Royalties	$ 5,257,599	$ 3,985,278	$ 9,553,322	$ 7,452,416
Interest and other income	71,205	49,653	166,405	126,496
	5,328,804	4,034,931	9,719,727	7,578,912
Costs and expenses	674,911	526,651	1,320,663	1,154,304
NET INCOME	$ 4,653,893	$ 3,508,280	$ 8,399,064	$ 6,424,608
Weighted-average shares outstanding	1,500,000	1,500,000	1,500,000	1,500,000
BASIC & DILUTED EARNINGS PER SHARE	$ 3.10	$ 2.34	$ 5.60	$ 4.28
Distributions declared per share	$ 2.40(1)	$ 1.90(2)	$ 4.60(3)	$ 3.70(4)
Distributions paid per share	$ 2.20(5)	$ 1.80(6)	$ 4.60(7)	$ 3.50(8)

(1) $ 2.40 declared 6/16/2005
payable 7/29/2005

(2)	$ 1.90	declared	6/14/2004				
		paid	7/30/2004				
(3)	$ 2.20	declared	3/18/2005	plus	$ 2.40	declared	6/16/2005
		paid	4/29/2005			payable	7/29/2005
(4)	$ 1.80	declared	3/15/2004	plus	$ 1.90	declared	6/14/2004
		paid	4/30/2004			paid	7/30/2004
(5)	$ 2.20	declared	3/18/2005				
		paid	4/29/2005				
(6)	$ 1.80	declared	3/15/2004				
		paid	4/30/2004				
(7)	$ 2.40	declared	12/20/2004	plus	$ 2.20	declared	3/18/2005
		paid	1/31/2005			paid	4/29/2005
(8)	$ 1.70	declared	12/19/2003	plus	$ 1.80	declared	3/15/2004
		paid	1/30/2004			paid	4/30/2004

See notes to condensed financial statements.

GREAT NORTHERN IRON ORE PROPERTIES

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30	
	2005	**2004**
Cash flows from operating activities:		
Cash received from royalties and rents	$ 7,384,569	$ 6,064,162
Cash paid to suppliers and employees	1,087,927	1,065,899
Interest received	98,862	99,770
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,395,504	5,098,033
Cash flows from investing activities:		
U.S. Treasury securities purchased	2,750,000	2,100,000
U.S. Treasury securities matured	3,247,396	2,125,000
Net expenditures for equipment	8,375	695

NET CASH PROVIDED BY INVESTING ACTIVITIES	489,021	24,305
Cash flows from financing activities:		
Distributions paid	6,900,000	5,250,000
NET CASH USED IN FINANCING ACTIVITIES	6,900,000	5,250,000
Net decrease in cash and cash equivalents	15,475	127,662
Cash and cash equivalents at beginning of year	788,779	856,399
CASH AND CASH EQUIVALENTS AT JUNE 30	$ 773,304	$ 728,737

See notes to condensed financial statements.

GREAT NORTHERN IRON ORE PROPERTIES

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Periods of Three and Six Months ended June 30, 2005 and June 30, 2004

Note A BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods stated above are not necessarily indicative of the results that may be expected for each respective full year. For further information, refer to the financial statements and footnotes included in the Great Northern Iron Ore Properties (Trust) Annual Report on Form 10-K for the year ended December 31, 2004.

Note B BENEFICIARIES EQUITY

Pursuant to the Court Order of November 29, 1982, the Trustees were directed to create and maintain an account designated as Principal Charges. This account constitutes a first and prior lien of certificate holders on any property transferable to the reversioner and reflects an allocation of beneficiaries equity between the certificate holders and the reversioner. This account is neither an asset nor a liability of the Trust. Rather, this account maintains and represents a balance which will be payable to the certificate holders from the reversioner at the end of the Trust. The balance in this account consists of attorneys fees and expenses of counsel for adverse parties pursuant to the Court Order in connection with litigation commenced in 1972 relating to the Trustees powers and duties under the Trust Instrument and the cost of surface lands acquired in accordance with provisions of a lease with United States Steel Corporation, net of an allowance to amortize the cost of the land based on actual shipments of taconite and net of a credit for disposition of tangible assets. Following is an analysis of this account as of June 30, 2005:

Attorneys fees and expenses	$ 1,024,834

Cost of surface lands	5,817,965
Cumulative shipment credits	1,396,253
Asset disposition credits	57,950
Principal Charges account	$ 5,388,596

Upon termination of the Trust, the Trustees shall either sell tangible assets or obtain a loan with tangible assets as security to provide monies for distribution to the certificate holders in the amount of the Principal Charges account balance.

Note C PENSION PLAN

A summary of the components of net periodic pension cost, a noncash item, is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Service cost	$ 59,174	$ 29,356	$ 95,778	$ 58,713
Interest cost	75,918	52,599	130,891	105,198
Expected return on assets	75,480	75,804	149,728	151,609
Net amortization	46,643	1,441	54,240	2,882
Net periodic pension cost	$ 106,255	$ 7,592	$ 131,181	$ 15,184

The plan s annual actuarial valuation was performed as of the plan s fiscal year-end March 31. The recommended contribution to the plan for 2005 is $257,706, which contribution is scheduled to be made in August, 2005.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Periods of Three and Six Months ended June 30, 2005 and June 30, 2004

The Trust owns interest in 12,033 acres on the Mesabi Iron Range Formation in northern Minnesota, most of which are under lease to major iron ore producing companies. Due to the Trustees election pursuant to Section 646 of the Tax Reform Act of 1986, as amended, commencing with year 1989 the Trust is not subject to federal and Minnesota corporate income taxes. The Trust is now a grantor trust. Shares of beneficial interest in the Trust are traded on the New York Stock Exchange under the ticker symbol GNI (CUSIP No. 391064102).

The terms of the Great Northern Iron Ore Properties Trust Agreement, created December 7, 1906, state that the Trust shall continue for twenty years after the death of the last surviving of eighteen persons named in the Trust Agreement. The last survivor of these eighteen named in the Trust Agreement died April 6, 1995. Accordingly, the Trust terminates twenty years from April 6, 1995.

At the end of the Trust, that being April 6, 2015, the certificates of beneficial interest (shares) in the Trust will cease to trade on the New York Stock Exchange and thereafter will represent only the right to receive certain distributions payable to the certificate holders of record at the time of the termination of the Trust. Upon termination, the Trust is obligated to distribute ratably to these certificate holders the net monies remaining in the hands of the Trustees (after paying and providing for all expenses and obligations of the Trust), plus the balance in the Principal Charges account (this account is explained in the Trust s Annual Report sent to all certificate holders every year). All other Trust property (most notably the Trust s mineral properties) must be conveyed and transferred to the reversioner under the terms of the Trust Agreement.

We have previously provided information in our various Securities & Exchange Commission filings, including our Annual Report, about the final distribution payable to the certificate holders upon the Trust s termination. The exact final distribution, though not determinable at this time, will generally consist of the sum of the Trust s net monies (essentially, total assets less liabilities

and properties) and the balance in the Principal Charges account, less any and all expenses and obligations of the Trust upon termination. To offer a hypothetical example, without factoring in any expenses and obligations of the Trust upon its termination, and using the financial statement values as of December 31, 2004, the net monies were approximately $10.2 million and the Principal Charges account balance was approximately $5.4 million, resulting in a final distribution payable of approximately $15.6 million, or about $10.40 per share. After payment of this final distribution, the certificates of beneficial interest (shares) would be cancelled and will have no further value. It is important to note, however, that the actual net monies on hand and the Principal Charges account balance will most likely fluctuate during the ensuing years, and will not be final until after the termination and wind-down of the Trust. We offer this example to further inform investors about the conceptual nature of the final distribution and do not imply or guarantee a specific known final distribution amount.

Results of Operations:

Royalties increased $2,100,906 and $1,272,321 during the six months and three months ended June 30, 2005, respectively, as compared to the same periods in 2004, due mainly to an increase in minimum royalties and earned royalty rates because of escalation, offset in part by a decrease in tonnage mined from Trust lands.

Interest and other income increased $39,909 and $21,552 during the six months and three months ended June 30, 2005, respectively, as compared to the same periods in 2004, due mainly to improved yields on our funds held for investment and additional timber receipts.

Costs and expenses increased $166,359 and $148,260 during the six months and three months ended June 30, 2005, respectively, as compared to the same periods in 2004, due mainly to higher pension costs associated with funding the plan and expensing these costs by the Trust s termination date.

At their meeting held on June 16, 2005, the Trustees declared a second quarter distribution of $2.40 per share, amounting to $3,600,000 payable July 29, 2005 to certificate holders of record at the close of business on June 30, 2005. The Trustees have now declared two quarterly distributions in 2005. The first, in the amount of $2.20 per share, was paid on April 29, 2005 to certificate holders of record on March 31, 2005; and the second, that being the current distribution. The first and second quarter 2004 distributions were $1.80 and $1.90 per share, respectively. The Trustees intend to continue quarterly distributions and set the record date as of the last business day of each quarter. The next distribution will be paid in late October 2005 to certificate holders of record on September 30, 2005.

A mining agreement dated January 1, 1959 with United States Steel Corporation provides that one-half of annual earned royalty income, after satisfaction of minimum royalty payments, shall be applied to reimburse the lessee for a portion of its cost of acquisition of surface lands overlying the leased mineral deposits, which surface lands are then conveyed to the Trustees. There are surface lands yet to be purchased, the costs of which are yet unknown and will not be known until the actual purchases are made.

Liquidity:

In the interest of preservation of principal of Court-approved reserves and guided by the restrictive provisions of Section 646 of the Tax Reform Act of 1986, as amended, monies are

invested primarily in U.S. Treasury securities with maturity dates not to exceed three years and, along with cash flows from operations, are deemed adequate to meet currently foreseeable liquidity needs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

None

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Trust conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the Trust s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act)). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Trust s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Trust in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. There was no change in the Trust s internal control over financial reporting during the Trust s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

At a hearing held on June 1, 2005, in Ramsey County District Court, Saint Paul, Minnesota, the accounts of the Trustees for the year 2004 were approved.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Certificate Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002

Exhibit 32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (Furnished but not filed)

(b) Reports on Form 8-K None

SIGNATURES

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.

GREAT NORTHERN IRON ORE PROPERTIES

(Registrant)

Date July 21, 2005

By /s/ Joseph S. Micallef

Joseph S. Micallef, President of the Trustees and Chief Executive Officer

Date July 21, 2005

By /s/ Thomas A. Janochoski

Thomas A. Janochoski, Vice President & Secretary and Chief Financial Officer