

Edgar Filing: GREAT NORTHERN IRON ORE PROPERTIES - Form 10-Q

GREAT NORTHERN IRON ORE PROPERTIES

Form 10-Q

October 16, 2003

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

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 - For the Period Ended SEPTEMBER 30, 2003

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 ☒ No ☐

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

Number of shares of beneficial interest outstanding on September 30, 2003:

1,500,000

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GREAT NORTHERN IRON ORE PROPERTIES  
CONDENSED BALANCE SHEETS

	September 30 2003 ----- (Unaudited)	December 31 2002 ----- (Note)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,111,692	\$ 663,230
United States Treasury securities	4,038,277	4,242,067
Royalties receivable	2,650,503	2,635,883
Prepaid expenses	22,166	2,760
	-----	-----
TOTAL CURRENT ASSETS	7,822,638	7,543,940
NONCURRENT ASSETS		
United States Treasury securities	4,563,672	3,760,674
Prepaid pension expense	831,256	708,207
	-----	-----
	5,394,928	4,468,881
PROPERTIES		
Mineral lands	38,577,007	38,577,007
Less allowances for depletion and amortization	34,029,715	33,873,565
	-----	-----
	4,547,292	4,703,442
Building and equipment--at cost, less allowances for accumulated depreciation (9/30/03 - \$206,147; 12/31/02 - \$197,020)	156,982	157,400
	-----	-----
	4,704,274	4,860,842
	-----	-----
	\$17,921,840	\$16,873,663
	=====	=====
LIABILITIES AND BENEFICIARIES' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 118,800	\$ 85,574
Distributions	2,550,000	2,250,000
	-----	-----
TOTAL CURRENT LIABILITIES	2,668,800	2,335,574
NONCURRENT LIABILITIES	13,700	13,700
BENEFICIARIES' EQUITY, including certificate holders' equity, represented by 1,500,000 shares of beneficial interest authorized and outstanding,		

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and reversionary interest	15,239,340	14,524,389
	-----	-----
	\$17,921,840	\$16,873,663
	=====	=====

Note: The balance sheet at December 31, 2002 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.

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## GREAT NORTHERN IRON ORE PROPERTIES

### CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Nin
	September 30		
	2003	2002	2003
	-----	-----	-----
Revenues:			
Royalties	\$2,954,900	\$1,982,911	\$9,250,162
Interest and other income	76,756	94,572	303,101
	-----	-----	-----
Costs and expenses	3,031,656	2,077,483	9,553,263
	509,588	470,750	1,638,312
	-----	-----	-----
NET INCOME	\$2,522,068	\$1,606,733	\$7,914,951
	=====	=====	=====
Weighted-average shares outstanding	1,500,000	1,500,000	1,500,000
BASIC & DILUTED EARNINGS PER SHARE	\$ 1.68	\$ 1.07	\$ 5.28
	=====	=====	=====
Distributions declared per share	\$ 1.70 (1)	\$ 1.40 (2)	\$ 4.80
Distributions paid per share	\$ 1.60 (5)	\$ 1.40 (6)	\$ 4.60
(1) \$1.70 declared payable 9/12/2003 10/31/2003			
(2) \$1.40 declared paid 9/13/2002 10/31/2002			
(3) \$1.50 declared paid 3/14/2003 4/30/2003 plus \$1.60 declared paid 6/9/2003 7/31/2003 plus \$1.70			
(4) \$1.10 declared paid 3/13/2002 4/30/2002 plus \$1.40 declared paid 6/17/2002 7/31/2002 plus \$1.40			

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(5)	\$1.60 declared paid	6/9/2003 7/31/2003						
(6)	\$1.40 declared paid	6/17/2002 7/31/2002						
(7)	\$1.50 declared paid	12/20/2002 1/31/2003	plus	\$1.50 declared paid	3/14/2003 4/30/2003	plus	\$1.60	
(8)	\$1.60 declared paid	12/10/2001 1/31/2002	plus	\$1.10 declared paid	3/13/2002 4/30/2002	plus	\$1.40	

See notes to condensed financial statements.

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## GREAT NORTHERN IRON ORE PROPERTIES

### CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended	
	September 30	
	2003	2002
Cash flows from operating activities:		
Cash received from royalties and rents	\$ 9,373,027	\$ 6,899,306
Cash paid to suppliers and employees	(1,562,746)	(1,255,227)
Interest received	216,408	305,546
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,026,689	5,949,625
Cash flows from investing activities:		
U.S. Treasury securities purchased	(3,550,000)	(2,725,000)
U.S. Treasury securities matured	2,900,000	3,100,000
Net expenditures for equipment	(28,227)	(24,776)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(678,227)	350,224
Cash flows from financing activities:		
Distributions paid	(6,900,000)	(6,150,000)
NET CASH USED IN FINANCING ACTIVITIES	(6,900,000)	(6,150,000)
Net increase in cash and cash equivalents	448,462	149,849
Cash and cash equivalents at beginning of year	663,230	759,281
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	\$ 1,111,692	\$ 909,130

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See notes to condensed financial statements.

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# GREAT NORTHERN IRON ORE PROPERTIES

## NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Periods of Three and Nine Months ended September 30, 2003 and September 30, 2002

### 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, 2002.

### 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 between the certificate holders and 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 September 30, 2003:

Attorneys' fees and expenses .....	\$ 1,024,834
Cost of surface lands .....	5,703,265
Cumulative shipment credits .....	-1,151,147
Asset disposition credits .....	-57,950
	-----
Principal Charges account .....	\$ 5,519,002
	=====

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.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results  
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of Operations  
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Periods of Three and Nine Months ended September 30, 2003 and September 30, 2002

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.

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 named in the Trust Agreement. The last survivor of these eighteen named in the Trust Agreement died April 6, 1995. According to the terms of the Trust Agreement, the Trust now terminates twenty years from April 6, 1995, that being April 6, 2015. The termination of the Trust on April 6, 2015 means that there will be no trading of the Trust's 1,500,000 certificates of beneficial interest (shares) on the New York Stock Exchange beyond that date. At the end of the Trust, all monies remaining in the hands of the Trustees (after paying and providing for all expenses and obligations of the Trust) shall be distributed ratably among the certificate holders, while all property other than monies shall be conveyed and transferred to the reversioner. In addition, by the terms of a District Court Order dated November 29, 1982, the reversioner, in effect, is required to pay the balance in the Principal Charges account (see Note B above) which primarily represents the costs of acquiring homes and land parcels on the iron formation that are necessary for the orderly mine development by United States Steel Corporation under its 1959 lease with the Trustees. This account balance, which may increase or decrease, will be added to the cash distributable to the certificate holders of record at the termination of the Trust.

Results of Operations:  
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Royalties increased \$3,008,775 and \$971,989 during the nine months and three months ended September 30, 2003, respectively, as compared to the same periods in 2002, due mainly to increased taconite production from Trust lands.

Interest and other income decreased \$45,448 and \$17,816 during the nine months and three months ended September 30, 2003, respectively, as compared to the same periods in 2002, due mainly to reduced yields on our funds held for investment.

Costs and expenses increased \$220,677 and \$38,838 during the nine months and three months ended September 30, 2003, respectively, as compared to the same periods in 2002, due mainly to costs associated with the Court-approved increase in compensation of the President of the Trustees, higher pension expense caused, in part, by a lower return on pension assets, and increased shareholder relations expenditures resulting from additional corporate governance requirements.

At their meeting held on September 12, 2003, the Trustees declared a third quarter distribution of \$1.70 per share, amounting to \$2,550,000 payable October 31, 2003 to certificate holders of record at the close of business on September 30, 2003. The Trustees have now declared three quarterly distributions in 2003.

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The first, in the amount of \$1.50 per share, was paid on April 30, 2003 to certificate holders of record on March 31, 2003; the second, in the amount of \$1.60 per share, was paid on July 31, 2003 to certificate holders of record on June 30, 2003; and the third,

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that being the current distribution. The first, second and third quarter 2002 distributions were \$1.10, \$1.40 and \$1.40 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 January 2004 to certificate holders of record on December 31, 2003.

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:

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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

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- None

### Item 4. Controls and Procedures

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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

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### Item 1. Legal Proceedings

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- None

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### Item 2. Changes in Securities and Use of Proceeds

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- None

### Item 3. Defaults Upon Senior Securities

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- None

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

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- None

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### Item 5. Other Information

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- None

### Item 6. Exhibits and Reports on Form 8-K

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(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 October 16, 2003

By /s/ Joseph S. Micallef

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

Date October 16, 2003

By /s/ Thomas A. Janochoski

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

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