

MESABI TRUST  
Form 10-Q  
June 06, 2014

**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 quarterly period ended April 30, 2014

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: 1-4488

**MESABI TRUST**

(Exact name of registrant as specified in its charter)

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**New York**

**13-6022277**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**c/o Deutsche Bank Trust Company Americas**

**Trust & Agency Services**

**60 Wall Street**

**16th Floor**

**New York, New York**

**10005**

(Address of principal executive offices)

(Zip code)

**(615) 835-2749**

(Registrant's telephone number, including area code)

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, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 6, 2014, there were 13,120,010 Units of Beneficial Interest in Mesabi Trust outstanding.



## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements. (Note 1)

Mesabi Trust

Condensed Statements of Income

Three Months Ended April 30, 2014 and 2013

	Three Months Ended April 30,	
	2014 (unaudited)	2013 (unaudited)
<b>A. Condensed Statements of Income</b>		
Revenues		
Royalty income	\$ 501,300	\$ 2,528,417
Interest income	2,135	390
Total revenues	503,435	2,528,807
Expenses		
	366,217	326,418
Net income	\$ 137,218	\$ 2,202,389
Number of units outstanding	13,120,010	13,120,010
Net income per unit (Note 2)	\$ 0.0105	\$ 0.1679
Distributions declared per unit (Note 3)	\$	\$ 0.0800

See Notes to Condensed Financial Statements.

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Mesabi Trust

Condensed Balance Sheets

April 30, 2014 and January 31, 2014

	April 30, 2014 (unaudited)	January 31, 2014
<b>B. Condensed Balance Sheets</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 518,622	\$ 7,719,963
U.S. Government securities, at amortized cost (which approximates market)	82,320	205,055
Accrued income receivable	45,523	63,253
Prepaid expenses	53,972	54,950
Current assets	700,437	8,043,221
U.S. Government securities, at amortized cost (which approximates market)	528,592	510,573
Fixed property, including intangibles, at nominal values		
Amended Assignment of Peters Lease	1	1
Assignment of Cloquet Lease	1	1
Certificate of beneficial interest for 13,120,010 units of land trust	1	1
	3	3
	\$ 1,229,032	\$ 8,553,797
<b>Liabilities, Unallocated Reserve and Trust Corpus</b>		
<b>Liabilities</b>		
Distribution payable	\$	\$ 7,478,406
Accrued expenses	107,717	91,294
Total liabilities	107,717	7,569,700
Unallocated Reserve (Note 4)	1,121,312	984,094
Trust Corpus	3	3
Total Liabilities, unallocated reserve and trust corpus	\$ 1,229,032	\$ 8,553,797

See Notes to Condensed Financial Statements.

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Mesabi Trust

Condensed Statements of Cash Flows

Three Months Ended April 30, 2014 and 2013

	Three Months Ended April 30,	
	2014 (unaudited)	2013 (unaudited)
<b>C. Condensed Statements of Cash Flows</b>		
Cash flows from operating activities		
Royalties received	\$ 520,936	\$ 1,146,901
Interest received	229	553
Expenses paid	(348,816)	(221,513)
Net cash provided by operating activities	172,349	925,941
Cash flows from investing activities		
Maturities of U.S. Government Securities	105,000	83,000
Sale of U.S. Government Securities	100,056	
Purchases of U.S. Government Securities	(100,340)	(82,380)
Net cash provided by investing activities	104,716	620
Cash flows used for financing activities		
Distributions to Unitholders	(7,478,406)	(6,428,805)
Net change in cash and cash equivalents	(7,201,341)	(5,502,244)
Cash and cash equivalents, beginning of year	7,719,963	6,727,461
Cash and cash equivalents, end of period	\$ 518,622	\$ 1,225,217
<b>Reconciliation of net income to net cash provided by operating activities</b>		
Net income	\$ 137,218	\$ 2,202,389
Decrease (increase) in accrued income receivable	17,730	(1,381,353)
Decrease in prepaid expenses	978	1,842
Increase in accrued expenses	16,423	103,063
Net cash provided by operating activities	\$ 172,349	\$ 925,941
<b>Non Cash Financing Activity</b>		
Distributions payable	\$	\$ 1,049,601

See Notes to Condensed Financial Statements.

**MESABI TRUST**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**April 30, 2014 (Unaudited)**

Note 1. The financial statements included herein have been prepared without audit (except for the balance sheet at January 31, 2014) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Trustees, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the results of operations for the three months ended April 30, 2014 and 2013, (b) the financial position at April 30, 2014, and (c) the cash flows for the three months ended April 30, 2014 and 2013, have been made. For further information, refer to the financial statements and footnotes included in Mesabi Trust's Annual Report on Form 10-K for the year ended January 31, 2014.

Note 2. Net income per unit includes accrued income receivable. For the three months ended April 30, 2014, the Trust recorded \$45,523 of accrued income receivable as reflected on the Condensed Balance Sheet as of April 30, 2014 (unaudited). Accrued income receivable is accounted for and reported for the Trust's first fiscal quarter based on mining and shipments during the month of April even though such accrued income receivable is not available for distribution to Unitholders until the applicable royalties are actually received by the Trust. Accrued income receivable also includes accruals for anticipated pricing adjustments, which can be positive or negative. Net income per unit is based on 13,120,010 units outstanding during the period.

Note 3. The Trust declares distributions (if any) each year in April, July, October and January. Distributions are declared after receiving notification from Northshore Mining Company (Northshore) as to the amount of royalties expected to be paid to the Trust in cash based on shipments through the end of each calendar quarter. The Trust's financial statements are prepared on an accrual basis and present the Trust's results of operations based on each fiscal quarter which ends one month after the close of each calendar quarter. Because distributions (if any) are declared based on the royalty payment that is payable as of the end of each calendar quarter and the Trust's Net Income is calculated as of the end of each fiscal quarter, the distributions declared by the Trust are not equivalent to the Trust's Net Income during the periods reported in this quarterly report on Form 10-Q.

Note 4. The Trustees have determined that the unallocated cash and U.S. Government securities portion of the Unallocated Reserve should be maintained at a prudent level, usually within the range of \$500,000 to \$1,000,000, to meet present or future liabilities of the Trust. Accordingly, although the actual amount of the Unallocated Reserve will fluctuate from time to time, and may increase or decrease from its current level, it is currently intended that future distributions will be highly dependent upon royalty payments received quarterly and the level of Trust expenses that the Trustees anticipate occurring in subsequent quarters. Pursuant to the Agreement of Trust, the Trust makes cash distributions to Unitholders based on the royalty payments it receives from Northshore when received, rather than as royalty income is recorded in accordance with the Trust's revenue recognition policy. Refer to Note 3 for further information.

As of April 30, 2014 and January 31, 2014, the unallocated cash and U.S. Government securities portion of the Trust's Unallocated Reserve was comprised of the following components:





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	April 30, 2014 (unaudited)	January 31, 2014
Cash and U.S. Government securities	\$ 1,129,534	\$ 8,435,591
Distribution payable		(7,478,406)
Unallocated cash and U.S. Government securities	\$ 1,129,534	\$ 957,185

A reconciliation of the Trust's Unallocated Reserve from January 31, 2014 to April 30, 2014 is as follows:

Unallocated Reserve, January 31, 2014	\$ 984,094	
Net income	137,218	
Distributions declared		
Unallocated Reserve, April 30, 2014	\$ 1,121,312	

**Item 2. Trustees Discussion and Analysis of Financial Condition and Results of Operations.**

**Forward-Looking Statements**

Certain information included in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. All such forward-looking statements, including those statements regarding estimation of iron ore pellet production, shipments or pricing, are based on information from the lessee/operator (and its parent corporation) of the mine located on the lands owned and held in trust for the benefit of the holders of units of beneficial interest of Mesabi Trust. These statements may be identified by the use of forward-looking words, such as may, will, could, project, predict, intend, believe, anticipate, expect, estimate, continue, should, assume, forecast and other similar words. Such forward-looking statements are inherently subject to known and unknown risks and uncertainties. Actual results and future developments could differ materially from the results or developments expressed in or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, volatility of iron ore and steel prices, market supply and demand, competition, environmental hazards, health and safety conditions, regulation or government action, litigation and uncertainties about estimates of reserves. Further, substantial portions of royalties earned by Mesabi Trust are based on estimated prices that are subject to interim and final adjustments which can be positive or negative and are dependent in part on multiple price and inflation index factors under agreements to which Mesabi Trust is not a party and that are not known until after the end of a contract year. It is possible that future negative price adjustments could partially or even completely offset royalties or royalty income that would otherwise be payable to the Trust's Unitholders in any particular quarter, or at year end, thereby potentially reducing cash available for distribution to the Trust's Unitholders in future quarters. For a discussion of the factors, including without limitation, those that could materially and adversely affect Mesabi Trust's actual results and performance, see Risk Factors set forth on pages 3 through 8 of Mesabi Trust's Annual Report on Form 10-K for the year-ended January 31, 2014. Mesabi Trust undertakes no obligation, other than that imposed by law, to make any revisions to the forward-looking statements contained in this filing or to update them to reflect circumstances occurring after the date of this filing.

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This discussion should be read in conjunction with the condensed financial statements and notes presented in this Quarterly Report on Form 10-Q and the financial statements and notes in the last filed Annual Report on Form 10-K filed for the period ended January 31, 2014 for a full understanding of Mesabi Trust's financial position and results of operations for the three month period ended April 30, 2014.

### Background

Mesabi Trust ( Mesabi Trust or the Trust ), formed pursuant to an Agreement of Trust dated July 18, 1961 (the Agreement of Trust ), is a trust organized under the laws of the State of New York. Mesabi Trust holds all of the interests formerly owned by Mesabi Iron Company ( MIC ), including all right, title and interest in the Amendment of Assignment, Assumption and Further Assignment of Peters Lease (the Amended Assignment of Peters Lease ), the Amendment of Assignment, Assumption and Further Assignment of Cloquet Lease (the Amended Assignment of Cloquet Lease ) and together with the Amended Assignment of Peters Lease, the Amended Assignment Agreements ), the beneficial interest in a trust organized on July 18, 1961 under the laws of the State of Minnesota to administer the Mesabi Fee Lands (as defined below) as the trust corpus in compliance with the laws of the State of Minnesota (the Mesabi Land Trust ) and all other assets and property identified in the Agreement of Trust. The Amended Assignment of Peters Lease relates to an Indenture made as of April 30, 1915 among East Mesaba Iron Company ( East Mesaba ), Dunka River Iron Company ( Dunka River ) and Claude W. Peters (the Peters Lease ) and the Amended Assignment of Cloquet Lease relates to an Indenture made May 1, 1916 between Cloquet Lumber Company and Claude W. Peters (the Cloquet Lease ).

The Agreement of Trust specifically prohibits the Trustees from entering into or engaging in any business. This prohibition applies even to business activities the Trustees may deem necessary or proper for the preservation and protection of the Trust Estate. Accordingly, the Trustees activities in connection with the administration of Trust assets are limited to collecting income, paying expenses and liabilities, distributing net income to the holders of Certificates of Beneficial Interest in Mesabi Trust ( Unitholders ) after the payment of, or provision for, such expenses and liabilities, and protecting and conserving the assets held.

The Trustees do not intend to expand their responsibilities beyond those permitted or required by the Agreement of Trust, the Amendment to the Agreement of Trust dated October 25, 1982 (the Amendment ), and those required under applicable law. Mesabi Trust has no employees, but it engages independent consultants to assist the Trustees in, among other things, monitoring the volume and sales prices of iron ore products shipped from Silver Bay, Minnesota, based on information supplied to the Trustees by Northshore, the lessee/operator of the lands leased under the Peters Lease and Cloquet Lease (the Peters Lease Lands and Cloquet Lease Lands, respectively) and the fee interest of certain lands that are particularly described in, and subject to a mining lease under, the Peters Lease (the Mesabi Fee Lands, and together with the Peters Lease Lands and Cloquet Lease Lands, the Mesabi Trust lands ), and its parent company Cliffs Natural Resources Inc. ( Cliffs ). References to Northshore in this quarterly report, unless the context requires otherwise, are applicable to Cliffs as well.

Leasehold royalty income constitutes the principal source of the Trust's revenue. The income of the Trust is highly dependent upon the activities and operations of Northshore. Royalty rates and the resulting royalty payments received by the Trust are determined in accordance with the terms of the Trust's leases and assignments of leases.

Three types of royalties, as well as royalty bonuses, comprise the Trust's leasehold royalty income:

- **Base overriding royalties.** Base overriding royalties have historically constituted the majority of the Trust's royalty income. Base overriding royalties are determined by both the volume and selling price of iron ore products shipped. Northshore is obligated to

pay

the Trust base overriding royalties in varying amounts, based on the volume of iron ore products shipped. Base overriding royalties are calculated as a percentage of the gross proceeds of iron ore products produced at the Mesabi Trust lands (and to a limited extent other lands) and shipped from Silver Bay, Minnesota. The percentage ranges from 2-1/2% of the gross proceeds for the first one million tons of iron ore products so shipped annually to 6% of the gross proceeds for all iron ore products in excess of 4 million tons so shipped annually. Base overriding royalties are impacted by, among other things, price adjustments under the Cliffs Pellet Agreements (defined below) and, as described elsewhere in this report, such adjustments may be positive or negative.

- Royalty bonuses. The Trust earns royalty bonuses when iron ore products shipped from Silver Bay are sold at prices above a threshold price per ton. The royalty bonuses are calculated based on a percentage of the gross proceeds of product shipped from Silver Bay and sold at prices above a threshold price. The threshold price is adjusted (but not below \$30.00 per ton) on an annual basis for inflation and deflation (the Adjusted Threshold Price). The Adjusted Threshold Price was \$51.55 per ton for calendar year 2013 and is \$52.31 per ton for calendar year 2014. The royalty bonus percentage ranges from 1/2 of 1% of the gross proceeds (on all tonnage shipped for sale at prices between the Adjusted Threshold Price and \$2.00 above the Adjusted Threshold Price) to 3% of the gross proceeds (on all tonnage shipped for sale at prices \$10.00 or more above the Adjusted Threshold Price). Royalty bonuses are subject to price adjustments under the Cliffs Pellet Agreements and, as described elsewhere in this report, such adjustments may be positive or negative.
- Fee royalties. Fee royalties have historically constituted a smaller component of the Trust's total royalty income. Fee royalties are payable to the Mesabi Land Trust, a Minnesota land trust, which holds a 20% interest as fee owner in the Amended Assignment of Peters Lease. Mesabi Trust holds the entire beneficial interest in the Mesabi Land Trust for which U.S. Bank N.A. acts as the corporate trustee. Mesabi Trust receives the net income of the Mesabi Land Trust, which is generated from royalties on the amount of crude ore mined after the payment of expenses to U.S. Bank N.A. for its services as corporate trustee. Crude ore is the source of iron oxides used to make iron ore pellets and other products. The fee royalty on crude ore is based on an agreed price per ton, subject to certain indexing.
- Minimum advance royalties. Northshore's obligation to pay base overriding royalties and royalty bonuses with respect to the sale of iron ore products generally accrues upon the shipment of those products from Silver Bay. However, regardless of whether any shipment has occurred, under the terms of the Amended Assignment Agreements, Northshore is obligated to pay to the Trust a minimum advance royalty. Each year, the amount of the minimum advance royalty is adjusted (but not below \$500,000 per annum) for inflation and deflation in accordance with the Amended Assignment Agreements. The minimum advance royalty was \$859,429 for calendar year 2013 and is \$872,156 for calendar year 2014. Until base overriding royalties (and royalty bonuses, if any) for a particular year equal or exceed the minimum advance royalty for the year, Northshore must make quarterly payments of up to 25% of the minimum advance royalty for the year. Because minimum advance royalties are essentially prepayments of base overriding royalties and royalty bonuses earned each year, any minimum advance royalties paid in a fiscal quarter are recouped by credits against base overriding royalties and royalty bonuses earned in later fiscal quarters during the year.

Under the relevant documents, Northshore may mine and ship iron ore products from lands other than Mesabi Trust lands. Northshore is obligated to make quarterly royalty payments to the Trust in January, April, July and October of each year based on shipments of iron ore products from Silver Bay, Minnesota during each calendar quarter. In the case of base overriding royalties and royalty bonuses,

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these quarterly royalty payments are to be made whether or not the related proceeds of sale have been received by Northshore by the time such payments become due. Northshore alone determines whether to mine off Mesabi Trust lands and/or such other lands, based on its current mining and engineering plan. The Trustees do not exert any influence over mining operational decisions. To encourage the mining of iron ore products from Mesabi Trust lands, Mesabi Trust receives royalties, in part, based on the greater of the following two methods of calculating royalty payments: (i) the aggregate quantity of iron ore products shipped that were produced using iron ore mined from Mesabi Trust lands, and (ii) a portion of the aggregate quantity of all iron ore products shipped from Silver Bay that were mined from any lands, such portion being 90% of the first four million tons shipped from Silver Bay during the calendar year, 85% of the next two million tons shipped during the calendar year, and 25% of all tonnage shipped from Silver Bay during such year in excess of six million tons. The royalty percentage paid to the Trust increases as the aggregate tonnage of iron ore products shipped, attributable to the Trust, in any calendar year increases past each of the first four one-million ton volume thresholds. Assuming a consistent sales price per ton throughout a calendar year, shipments of iron ore product attributable to the Trust later in the year generate a higher royalty to the Trust, as total shipments for the year exceed increasing levels of royalty percentages and pass each of the first four one-million ton volume thresholds.

During the course of the Trust's fiscal year, some portion of royalties expected to be paid to Mesabi Trust is based in part on estimated prices for iron ore products sold under term contracts between Northshore, Cliffs and certain of their customers (the Cliffs Pellet Agreements). The Cliffs Pellet Agreements use estimated prices which are subject to interim and final pricing adjustments, which can be positive or negative, and which adjustments are dependent in part on multiple price and inflation index factors that are not known until after the end of a contract year. Even though Mesabi Trust is not a party to the Cliffs Pellet Agreements, these adjustments can result in significant variations in royalties received by Mesabi Trust (and in turn the resulting amount available for distribution to Unitholders by the Trust) from quarter to quarter and on a comparative historical basis, and these variations, which can be positive or negative, cannot be predicted by Mesabi Trust. In either case, these price adjustments will impact future royalties received by the Trust that become available for distribution to Unitholders.

Deutsche Bank Trust Company Americas, the Corporate Trustee, performs certain administrative functions for Mesabi Trust. The Trust maintains a website at [www.mesabi-trust.com](http://www.mesabi-trust.com). The Trust makes available (free of charge) its annual, quarterly and current reports (and any amendments thereto) filed with the Securities and Exchange Commission (the SEC) through its website as soon as reasonably practicable after electronically filing or furnishing such material with or to the SEC.

### Results of Operations

#### Comparison of Iron Ore Pellet Production and Shipments for the Three Months Ended April 30, 2014 and April 30, 2013

As shown in the table below, production of iron ore pellets at Northshore from Mesabi Trust lands during the fiscal quarter ended April 30, 2014 totaled 1,178,206 tons, and actual shipments over the same period totaled 77,837 tons. By comparison, actual pellet production and actual shipments for the comparable prior period were 933,437 tons and 568,548 tons, respectively. The increase in production at Northshore, as compared to the prior comparable period, is the result of increases in anticipated demand and actual orders from Cliffs' customers. The decrease in shipments at Northshore, as compared to the prior comparable period, is the result of unfavorable weather conditions during the fiscal quarter.

Fiscal Quarter Ended	Pellets Produced from Trust Lands (tons)	Pellets Shipped from Trust Lands (tons)
April 30, 2014	1,178,206	77,837
April 30, 2013	933,437	568,548



**Comparison of Royalty Income for the Three Months Ended April 30, 2014 and April 30, 2013**

Total royalty income for the current quarter decreased \$2,027,117 to \$501,300, as compared to the three months ended April 30, 2013. The decrease in total royalty income is due to a decrease in the total volume of iron ore pellets shipped during the three months ended April 30, 2014, as compared to the three months ended April 30, 2013.

The table below shows that the base overriding royalties and the bonus royalties decreased \$903,951 and \$1,128,905, respectively, and the fee royalties increased \$5,739 for the three months ended April 30, 2014, as compared to the three months ended April 30, 2013. The decreases in the base overriding royalties and the bonus royalties are both attributable to the decrease in the volume of tons shipped during the three months ended April 30, 2014, each as compared to the three months ended April 30, 2013. The increase in the fee royalty amount is due to the increase in the amount of ore mined under the Peters Lease.

The table below summarizes the components of Mesabi Trust's royalty income for the three months ended April 30, 2014 and April 30, 2013, respectively:

	<b>Three Months Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>
Base overriding royalties	\$ 157,682	\$ 1,061,633
Bonus royalties	183,455	1,312,360
Minimum advance royalty paid (recouped)		
Fee royalties	160,163	154,424
Total royalty income	\$ 501,300	\$ 2,528,417

**Comparison of Income, Expenses and Distributions for the Three Months Ended April 30, 2014 and April 30, 2013**

Net income for the three months ended April 30, 2014 was \$137,218, a decrease of \$2,065,171 compared to the three months ended April 30, 2013. The decrease in net income for the quarter ended April 30, 2014 is the result of a decrease in the total volume of iron ore pellets shipped during the three months ended April 30, 2014, as compared to the three months ended April 30, 2013. The Trust's expenses for the three months ended April 30, 2014 were \$366,217; an increase of \$39,799 compared to the Trust's expenses for the three month period ended April 30, 2013. The table below summarizes the Trust's income and expenses for the three months ended April 30, 2014 and April 30, 2013, respectively.

	<b>Three Months Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>
Total Royalty Income	\$ 501,300	\$ 2,528,417
Interest Income	2,135	390
Gross Income	503,435	2,528,807
Expenses	366,217	326,418