CLEVELAND CLIFFS INC
Form S-3
March 03, 2004

As filed with the Securities and Exchange Commission on March 3, 2004.

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Cleveland-Cliffs Inc

(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 Number)*

1100 Superior Avenue

Cleveland, Ohio 44114
(216) 694-5700
(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant s Principal Executive Offices)

John E. Lenhard, Esq.

Vice President, Secretary and General Counsel
Cleveland-Cliffs Inc
1100 Superior Avenue
Cleveland, Ohio 44114
(216) 694-5700
(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent for Service)

Copies to:

David P. Porter, Esq.

Jones Day
901 Lakeside Avenue
Cleveland, Ohio 44114
(216) 586-3939

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement, as the selling securityholders determine.

If the only securities being registered on this form are offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or reinvestment plans, please check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o ______

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement of the same offering. o ______

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price	Calculate Amount of Registration Fee
3.25% Redeemable Cumulative Convertible Perpetual Preferred Stock, without par value	172,500 shares	$1,141(2)	$196,822,500	$24,937
Convertible Subordinated Debentures	$172,500,000(3)	(3)	(3)	(3)
Common Shares, par value $1.00 per share, and related rights to purchase Common Shares (4)	2,782,253 shares(5)	(5)	(5)	(5)

(1) Exclusive of accrued interest and distributions, if any.
(2) Estimated solely for purposes of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act, based upon the average of the bid and asked for prices of the preferred stock on the PORTAL Market on February 27, 2004.
(3) Represents the aggregate principal amount of convertible subordinated debentures originally issuable in exchange for the preferred stock. Pursuant to Rule 457(i) under the Securities Act, no additional registration fee is required for the convertible subordinated debentures issuable in exchange for the preferred stock because no additional consideration will be received in connection with the exchange.
(4) This registration statement also relates to rights to purchase the registrant s common shares. Until the occurrence of certain prescribed events, the rights are not exercisable, are evidenced by the certificates representing the common shares and are transferred with and only with the common shares. The value attributable to the rights, if any, is reflected in the value of the common shares and no separate consideration has been received for the rights.
(5) Represents the underlying common shares originally issuable upon exercise of the conversion privilege attached to the preferred stock or the convertible subordinated debentures. Pursuant to Rule 416 under the Securities Act, an indeterminate number of additional common shares are registered hereunder that may be issued in connection with a stock split, stock dividend, recapitalization, or similar event or adjustment in the number of shares issuable as provided by the terms of the preferred stock. Pursuant to Rule 457(i) under the Securities Act, no additional registration fee is required for the common shares issuable upon conversion of the preferred stock or convertible subordinated debentures because no additional consideration will be received in connection with the exercise of the conversion privilege attached to the preferred stock or the convertible subordinated debentures.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS *SUBJECT TO COMPLETION, DATED MARCH 3, 2004*

172,500 Shares

Cleveland-Cliffs Inc

172,500 SHARES OF 3.25% REDEEMABLE CUMULATIVE CONVERTIBLE PERPETUAL PREFERRED STOCK

$172,500,000 PRINCIPAL AGGREGATE AMOUNT OF 3.25% CONVERTIBLE SUBORDINATED

DEBENTURES ISSUABLE IN EXCHANGE FOR THE PREFERRED STOCK

2,782,253 COMMON SHARES ISSUABLE UPON CONVERSION OF THE PREFERRED STOCK OR CONVERTIBLE SUBORDINATED DEBENTURES

We originally issued the preferred stock in a private placement on January 21, 2004. This prospectus relates to resales of preferred stock and to sales of convertible subordinated debentures that may be issued in exchange for preferred stock and common shares that may be issued upon conversion of preferred stock or convertible subordinated debentures by the securityholders named under the caption Selling Securityholders in this prospectus. The selling securityholders may offer the securities at fixed prices, at prevailing market prices at the time of sale, at varying prices or negotiated prices. We will not receive any cash proceeds from the selling securityholders sales of these securities.

Each share of preferred stock has an initial liquidation preference of $1,000 and is convertible initially into 16.1290 of our common shares, based on an initial conversion price of $62.00 per share, subject in each case to specified adjustments, only under the following circumstances: (1) the closing sale price of our common shares reaches, or the trading price of the preferred stock falls below, specified thresholds, (2) the preferred stock is called for redemption, or (3) specified corporate transactions have occurred.

Cash dividends on the preferred stock are payable, when and as declared by our board of directors, out of funds legally available therefor, at the rate of 3.25% per annum, quarterly in arrears, commencing April 15, 2004. Dividends on the preferred stock will be cumulative from the date of issuance. Accumulated but unpaid dividends will not cumulate additional dividends or interest. If we fail to pay, or to set apart funds to pay, dividends on the preferred stock for any quarterly dividend period, then holders of the preferred stock will be entitled to receive, when and as declared by our board of directors, out of funds legally available therefor, cash dividends at an increased rate per annum as described herein for each subsequent quarterly dividend period until we have paid or provided for the payment of all dividends on the preferred stock for all dividend periods up to and including the dividend payment date on which the accumulated and unpaid dividends are paid in full.

Beginning January 20, 2009, we may redeem shares of the preferred stock by paying cash, our common shares valued at a discount of 2.5% from their market price or any combination thereof in an amount equal to the liquidation preference, plus any accumulated and unpaid dividends to the redemption date, but only if the closing sale price of our common shares has exceeded 135% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day prior to the date we give the notice of redemption. Following a designated event, as defined herein, holders of the preferred stock may require us to purchase any or all of their shares of preferred stock at the liquidation preference, plus any accumulated and unpaid dividends to the date of purchase, which we may pay in either cash, our common shares valued at a discount of 2.5% from their market price or any combination thereof.

We also have the right, subject to certain conditions, to require holders of the preferred stock to exchange their shares for convertible subordinated debentures with similar terms.

For a more detailed description of the preferred stock, see Description of Preferred Stock beginning on page 27. For a more detailed description of the convertible subordinated debentures, see Description of the Convertible Subordinated Debentures beginning on page 46.

Our common shares trade on the New York Stock Exchange under the symbol CLF. On March 2, 2004, the closing sale price of our common shares was $65.00 per share.

Investing in the preferred stock, the convertible subordinated debentures or the common shares involves risks. See Risk Factors beginning on page 8.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2004

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any jurisdiction where an offer is not permitted. You should not assume that the information provided in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process or continuous offering process. Under this shelf registration process, the selling securityholders may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities that may be offered by the selling securityholders. Each time a selling securityholder sells securities, the selling securityholder is required to provide you with this prospectus and, in certain cases, a prospectus supplement containing specific information about the selling securityholder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under Where You Can Find More Information.

The data included in this prospectus regarding industries and ranking, including the size of specific industries and our position and the position of our competitors within these industries, are based on independent industry publications or other published industry sources and our estimates. Our estimates are based on information obtained from our customers, distributors, suppliers, trade and business organizations and other contacts in the industries in which we operate and our management s knowledge and experience. Although we believe these estimates to be accurate as of the date of this prospectus and these sources to be reliable, we have not independently verified and do not guarantee the accuracy and completeness of those estimates and this information.

WHERE YOU CAN FIND MORE INFORMATION

Available Information

We file reports, proxy statements and other information with the SEC. You may obtain copies of this information by mail from the Public Reference Room of the SEC, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC s Public Reference Room in Washington, D.C. can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site at www.sec.gov that contains reports, proxy statements and other information regarding public companies like us that file SEC reports and other documents electronically. Reports, proxy statements and other information concerning us also may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. We also maintain an internet site at www.cleveland-cliffs.com that contains information concerning us and our affiliates. The information at our internet site is not incorporated by reference in this prospectus, and you should not consider it to be a part of this prospectus.

Incorporation by Reference

We incorporate by reference into this prospectus the following documents that we have filed with the SEC:

Annual Report on Form 10-K for the fiscal year ended December 31, 2003;

Current Report on Form 8-K filed on January 13, 2004;

Current Report on Form 8-K filed on January 15, 2004;

Current Report on Form 8-K filed on January 20, 2004;

Current Report on Form 8-K filed on January 22, 2004; and

The Description of Common Shares and the Description of the Rights contained in the Current Report on Form 8-K filed on March 2, 2004.

We also are incorporating by reference into this prospectus the documents that we subsequently file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until this offering is complete. In no event, however, will any of the information that we furnish under Item 9 or Item 12 of any Current Report on Form 8-K that we may from time to time provide to the SEC be incorporated by reference into, or otherwise part of, this prospectus. Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for all purposes to the extent that a statement contained in this prospectus, or in any other subsequently filed document that is also incorporated or deemed to be incorporated by reference, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide without charge to each person to whom a copy of this prospectus has been delivered a copy of any and all of these filings. You may request a copy of these filings by writing or telephoning us at:

Cleveland-Cliffs Inc

Investor Relations
1100 Superior Avenue
Cleveland, Ohio 44114-2589
(216) 694-5459

SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus. This summary does not contain all of the information that you should consider before investing in the preferred stock, the convertible subordinated debentures issuable upon exchange of the preferred stock and the common shares issuable upon conversion of the preferred stock or the convertible subordinated debentures. Before investing in the preferred stock, the convertible subordinated debentures or the common shares, you should read this entire prospectus carefully, including the Risk Factors section and the summary consolidated financial data and related notes, as well as the other information incorporated by reference in this prospectus. As used in this prospectus, Cleveland-Cliffs, the Company, we and our refer to Cleveland-Cliffs Inc and its subsidiaries, except where the context otherwise requires. The term preferred stock refers to our 3.25% redeemable cumulative convertible perpetual preferred stock, without par value, the term convertible subordinated debentures refers to our convertible subordinated debentures we may issue in exchange for the preferred stock and the term common shares refers to our common shares, par value $1.00 per share.

The Company

Business Description

Founded in 1847, we are the largest producer of iron ore pellets in North America and sell the majority of our pellets to integrated steel companies in the United States and Canada. We operate six iron ore mines located in Michigan, Minnesota and Eastern Canada that currently have a rated capacity of 36.9 million tons of iron ore pellet production annually. Based on our percentage ownership of the mines we operate, our share of the rated pellet production capacity is currently 22.6 million tons annually, representing approximately 28 percent of total North American annual pellet capacity. We sell our share of iron ore production to integrated steel producers, generally pursuant to term supply agreements with various price adjustment provisions.

Recent Developments

On February 18, 2004, International Steel Group Inc., or ISG, and Weirton Steel Corporation, or Weirton, announced the execution of a purchase agreement pursuant to which ISG will acquire substantially all of Weirton s assets. On May 19, 2003, Weirton petitioned the United States Bankruptcy Court for the Northern District of West Virginia for protection under chapter 11 of the U.S. Bankruptcy Code. The closing of the transaction is conditioned upon bankruptcy court approval, the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and satisfaction of other closing conditions. See Risk Factors Risks Relating to Our Company Our sales, margins and profitability may be significantly affected by the bankruptcy or reorganization of our customers.

On October 23, 2003, Rouge Industries, Inc., or Rouge, filed a petition for chapter 11 bankruptcy protection and on January 30, 2004 sold substantially all of its assets to Severstal North America, Inc., a U.S. affiliate of OAO Severstal, Russia s second largest steel producer. On February 19, 2004, Rouge repaid the outstanding balance of the $10.0 million secured loan we had previously made to it.

On February 26, 2004, FW Holding Inc., or FW Holding, a subsidiary of Weirton, filed a petition for chapter 11 bankruptcy protection. As discussed under Risk Factors Risks Relating to Our Company Our sales, margins and profitability may be significantly affected by the bankruptcy or reorganization of our customers, we are a participant in a joint venture that had entered into a purchase-leaseback arrangement with FW Holding in 2001. In connection with its bankruptcy filing, FW Holding has filed an adversary complaint against the joint venture for declaratory relief and the return of assets acquired in the purchase-leaseback transaction. In that complaint, FW Holding asserts that the lease transaction should be recharacterized as a secured loan. If FW Holding is successful in this action, the bankruptcy court will determine the value of the assets, which could be less than the value of the future payments that would have been due under the lease.

Our principal executive offices are currently located at 1100 Superior Avenue, Cleveland, Ohio 44114-2589, and our telephone number is (216) 694-5459.

THE OFFERING

On January 21, 2004, we completed a private offering of the preferred stock. We entered into a registration rights agreement with Morgan Stanley & Company, Inc., or the initial purchaser, in which we agreed, for the benefit of the holders of the preferred stock, to file a registration statement with the SEC by April 20, 2004 with respect to resales of the preferred stock, the convertible subordinated debentures issuable upon exchange of the preferred stock and the common shares issuable upon the conversion of the preferred stock and the convertible subordinated debentures. We also agreed to use our best efforts to cause the shelf registration statement to be declared effective under the Securities Act of 1933 by July 19, 2004 and to keep the shelf registration statement continuously effective until the earliest of (i) the sale to the public pursuant to Rule 144 (or any similar provisions then in force, but not Rule 144A) under the Securities Act or the registration statement of which this prospectus forms a part of all the securities registered thereunder, and (ii) the expiration of the holding period applicable to such securities held by persons that are not our affiliates under Rule 144(k) under the Securities Act or any successor provision, subject to permitted exceptions. If we do not satisfy this obligation, we will be required to pay liquidated damages to holders of the preferred stock, the convertible subordinated debentures we may issue in exchange for the preferred stock and the common shares issuable upon conversion of the preferred stock and convertible subordinated debentures.

Summary of the Terms of the Series A-2 Preferred Stock

Issuer	Cleveland-Cliffs Inc
Securities offered	172,500 shares of preferred stock
Liquidation preference	$1,000 per share of preferred stock
Dividends	Holders of preferred stock are entitled to receive, when and as declared by our board of directors, out of funds legally available therefor, cash dividends at the rate of 3.25% per annum, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing April 15, 2004. Dividends on the preferred stock will be cumulative from the date of original issuance. Accumulated but unpaid dividends will not cumulate additional dividends or interest.

If we fail to pay, or to set apart funds to pay, dividends on the preferred stock for any quarterly dividend period, then holders of preferred stock will be entitled to receive, when and as declared by our board of directors, out of funds legally available therefor, cash dividends at the rate per annum equal to:

$$3.25\% + [N * (3.25\%^2) * 0.25]$$

Where:

N = the number of quarterly dividend periods for which we have failed to pay or to set apart funds to pay dividends on the preferred stock,

for each subsequent quarterly dividend period until we have paid or provided for the payment of all dividends on the preferred stock for all dividend periods up to and including the dividend payment date on which the accumulated and unpaid dividends are paid in full.

No dividend may be paid upon or set apart for any shares of preferred stock on any dividend payment date unless (i) all dividends upon all shares of preferred stock then outstanding and all classes of stock ranking prior to the preferred stock, or senior

	stock, and stock ranking on a parity with the preferred stock, or parity stock, then outstanding for all dividend payment dates prior to such date have been paid or funds therefor set apart and (ii) at the same time a like dividend upon all shares of preferred stock then outstanding and all classes of senior stock and parity stock then outstanding with a dividend payment date on such date, ratably in proportion to the respective dividend dates of such series or class, shall be paid or funds therefor set apart.
	So long as any preferred stock shall be outstanding, we will not (1) pay or declare any dividends (except a dividend payable in stock ranking junior to the preferred stock, also called the junior stock) or make any other distribution on any junior stock or (2) purchase, retire or otherwise acquire any junior stock (except out of the proceeds of the sale of junior stock), unless all accrued and unpaid dividends on all shares of preferred stock and any parity stock then outstanding for all dividend payment dates on or prior to such date have been paid or funds therefor set apart.
Conversion	A holder may convert its preferred stock into a number of our common shares equal to the conversion rate only under the following circumstances:
	during any fiscal quarter after the fiscal quarter ending March 31, 2004 and only during such quarter, if the closing sale price of our common shares for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter exceeds 110 percent of the applicable conversion price on such trading day (initially 110 percent of $62.00, or $68.20);
	during the five business day period after any five consecutive trading-day period in which the trading price per share of preferred stock for each day of that period was less than 98 percent of the product of the closing sale price of our common shares and the applicable conversion rate on each such day;
	if the preferred stock has been called for redemption; or
	upon the occurrence of certain corporate transactions described under Description of Preferred Stock Conversion Rights Events Triggering Conversion Rights Conversion Rights Upon Occurrence of Certain Corporate Transactions.
	For each share of preferred stock surrendered for conversion, a holder will receive 16.1290 common shares. This represents an initial conversion price of $62.00 per common share. The conversion rate may be adjusted for certain reasons but will not be adjusted for accumulated and unpaid dividends or liquidated damages, if any. Upon conversion, holders will not receive any cash payment representing accumulated dividends, if any. Instead, accumulated dividends, if any, will be cancelled.
Optional redemption	We may not redeem any shares of preferred stock before January 20, 2009. On or after January 20, 2009, we may redeem some or all of the preferred stock at a redemption price equal to

	100 percent of the liquidation preference, plus accumulated but unpaid dividends, and liquidated damages, if any, to the redemption date, but only if the closing sale price of our common shares for 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date we give the redemption notice exceeds 135 percent of the conversion price of the preferred stock, subject to adjustment in a number of circumstances described under Description of Preferred Stock Conversion Rights Adjustments to Conversion Rate. We may choose to pay the redemption price in cash, our common shares, or a combination of cash and our common shares. If we elect to pay all or a portion of the redemption price in our common shares, our common shares will be valued at a discount of 2.5 percent below the average of the closing sale prices for the ten consecutive trading days ending on the fifth trading day prior to the redemption date.
	If full cumulative dividends on the preferred stock are not paid, the preferred stock may not be redeemed, and we may not purchase or acquire any shares of preferred stock other than pursuant to a purchase or exchange offer made on the same terms to all holders of preferred stock and any parity stock.
	The preferred stock is not subject to any mandatory redemption or sinking fund provision.
Designated event	If a designated event (as described under Description of Preferred Stock Designated Event Requires Us to Purchase Shares of Preferred Stock at the Option of the Holder) occurs, each holder of shares of preferred stock will have the right to require us to purchase any or all of its shares at a purchase price equal to 100 percent of the liquidation preference, plus accumulated and unpaid dividends, and liquidated damages, if any, to, but excluding, the date of purchase. We may choose to pay the purchase price in cash, our common shares, or a combination thereof. If we elect to pay all or a portion of the purchase price in our common shares, the common shares will be valued at a discount of 2.5 percent below the average of the closing sale prices for the ten consecutive trading days ending on the fifth trading day prior to the purchase date. Our ability to purchase all or a portion of the preferred stock for cash is subject to our obligation to repay or repurchase any outstanding debt that may be required to be repaid or repurchased in connection with a designated event and to any contractual restrictions contained in the terms of any indebtedness that we have at that time. If, following a designated event, we are prohibited from paying the purchase price of the preferred stock in cash under the terms of its debt instruments, but are not prohibited under applicable law from paying such purchase price in our common shares, we will pay the purchase price of the preferred stock in our common shares.
Voting rights	Holders of preferred stock will be entitled to one vote for each share of preferred stock held upon all matters presented to our shareholders and shall vote together with the holders of our common shares as one class.

	If we fail to pay, or to set apart funds to pay, dividends on the preferred stock or any other series of Class A Preferred Stock in an amount equivalent to six full quarterly dividends on any such series, whether or not consecutive and whether or not earned or declared, the holders of preferred stock and any other outstanding series of our Class A Preferred Stock will also be entitled to vote separately as a class to elect two directors. This special class voting right will terminate when all accrued and unpaid dividends on the preferred stock and any other series of our Class A Preferred Stock then outstanding are paid or funds are set apart for their payment.
Ranking	The preferred stock will be, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our company: junior to all our existing and future debt obligations; junior to each class or series of our capital stock other than (a) our common shares and any other class or series of our capital stock the terms of which provide that such class or series will rank junior to the preferred stock and (b) any other class or series of our capital stock the terms of which provide that such class or series will rank on a parity with the preferred stock; on a parity with any other class or series of our capital stock, including any series of our Class B Preferred Stock and any other series of our Class A Preferred Stock then outstanding, the rights of the holders of which (i) are not given preference over the rights of the holders of the preferred stock either as to dividends or as to distributions in the event of our liquidation, dissolution or winding up and (ii) rank on a parity with the rights of the holders of the preferred stock as to dividends or as to distributions in the event of our liquidation, dissolution or winding up, or both; senior to our common shares and any other class or series of our capital stock, the rights of the holders of which are junior and subordinate to the rights of the holders of the preferred stock both as to dividends and as to distributions in the event of our liquidation, dissolution or winding up; and effectively junior to all of our subsidiaries (i) existing and future liabilities and (ii) capital stock held by others.
Exchange right	We have the right, subject to certain restrictions, to require all holders of outstanding preferred stock to exchange their preferred stock for our convertible subordinated debentures having an aggregate principal amount equal to the aggregate liquidation preference of the preferred stock and having a conversion rate and interest rate equal to the conversion rate and dividend rate for the preferred stock. The maturity date of the convertible subordinated debentures will be the thirtieth anniversary of the exchange date. The terms of the convertible subordinated debentures are described further below.
Tax consequences to U.S. holders exercising the exchange right	The exchange of preferred stock for our convertible subordinated debentures under the exchange right would be taxable to the U.S.

	holders of the preferred stock and may be treated as a taxable distribution in the amount of the fair market value of the convertible subordinated debentures. See Certain Federal Income Tax Consequences U.S. Holders Preferred Stock and Common Shares Exchange of Preferred Stock for Convertible Subordinated Debentures. Based upon the advice of our counsel, we intend to treat such exchange as generally giving rise to capital gain or loss.
Trading	We have not applied and do not intend to apply for the listing of the preferred stock or the convertible subordinated debentures on any securities exchange.
PORTAL trading of the preferred stock	The preferred stock is currently eligible for trading on the Private Offerings, Resales and Trading through Automated Linkages, or PORTAL, System of the National Association of Securities Dealers, Inc.
NYSE symbol for the common shares	Our common shares are traded on the New York Stock Exchange under the symbol CLF.

Summary of the Terms of the Convertible Subordinated Debentures

Securities offered	The convertible subordinated debentures will be convertible into shares of our common shares and will have terms and conditions substantially similar to the preferred stock, except as described below.
Principal amount	The aggregate principal amount of the convertible subordinated debentures will be limited to the aggregate liquidation preference of the preferred stock outstanding on the effective date of the exchange. The convertible subordinated debentures will be issued in denominations equal to integral multiples of the liquidation preference of one share of preferred stock.
Ranking	The convertible subordinated debentures will be unsecured obligations of ours and will rank equally with all of our other unsecured subordinated indebtedness.
Subordination	The payment of principal and interest on the convertible subordinated debentures is subordinated in right of payment to the prior payment in full of all of our future senior debt.
Interest	Interest on the convertible subordinated debentures will accrue at an annual rate of 3.25 percent of the principal amount from the dividend payment date of the preferred stock immediately preceding the exchange date or, if the exchange date is a dividend payment date, from the exchange date, and thereafter from the most recent interest payment date. Interest will be payable in cash semi-annually in arrears on January 15 and July 15 of each year. We will not have the right to defer interest payments or to accrete the principal amount of the convertible subordinated debentures.
Maturity	The thirtieth anniversary of the exchange date.

Optional redemption	Our rights to redeem the convertible subordinated debentures will be substantially identical to our rights to redeem the preferred stock.
Conversion	The conversion rights of the convertible subordinated debentures will be substantially identical to the conversion rights of the preferred stock, except that on the date of any conversion upon satisfaction of a trading price condition as described in Description of Preferred Stock Conversion Rights Events Triggering Conversion Rights Conversion Upon Satisfaction of Trading Condition that is on or after the twenty-fifth anniversary of the exchange date, holders may not convert their convertible subordinated debentures upon satisfaction of such condition if on any trading day during the relevant measurement period for determining whether such condition has been met, the closing sale price of the common shares was between 100 percent and 110 percent of the then-current conversion price of the convertible subordinated debentures.
Voting rights	The holders of convertible subordinated debentures will not have the right to vote in the election of our directors or any other voting rights as holders of our common shares prior to the holders receipt of common shares upon conversion of their convertible subordinated debentures.
Designated event	The designated event repurchase rights of holders of the convertible subordinated debentures will be substantially identical to the designated event repurchase rights of holders of the preferred stock.
Events of default	A default in payment of principal or interest, the failure to deliver common shares upon conversion, the failure to comply with our other agreements in the indenture governing the convertible subordinated debentures or the occurrence of specified events of bankruptcy, insolvency or reorganization affecting us will constitute an event of default with respect to the convertible subordinated debentures.

RISK FACTORS

An investment in the preferred stock, the convertible subordinated debentures that we may issue in exchange for the preferred stock and the common shares issuable upon the conversion of the preferred stock and the convertible subordinated debentures involves risks. You should consider carefully the following risk factors in addition to the other information contained in this prospectus before deciding to purchase any shares of the preferred stock, the convertible subordinated debentures or the common shares. If any of the following risks actually occur, we may not be able to conduct our business as currently planned and our revenues and financial condition could be seriously harmed.

Risks Relating to the Steel Industry

Excess global capacity and the availability of competitive substitute materials have resulted in intense competition in the steel industry, which may further reduce steel prices and decrease steel production and our customers demand for iron ore products.

More than 95 percent of our revenues are derived from the North American integrated steel industry, which is highly competitive. From time to time, global overcapacity in steel manufacturing has a negative impact on North American steel sales and reduces the production of steel and consequently the demand for iron ore. Further, production of steel by North American integrated steel manufacturers may be replaced to a certain extent by production of substitute materials by other manufacturers. In the case of certain product applications, North American steel manufacturers compete with manufacturers of other materials, including plastic, aluminum, graphite composites, ceramics, glass, wood and concrete. Most of our term supply agreements for the sale of iron ore products are requirements-based or provide for flexibility of volume above a minimum level. Reduced demand for and consumption of iron ore products by North American integrated steel producers have had and may continue to have a significant negative impact on our sales, margins and profitability.

Increased imports of steel into the United States could adversely impact North American steel sales, which could adversely affect demand for our products and our sales, margins and profitability.

From time to time, global overcapacity in steel manufacturing and a weakening of certain foreign economies, particularly in Eastern Europe, Asia and Latin America, may negatively impact steel prices in those foreign economies and result in high levels of steel imports from those countries into the United States at depressed prices. Based on the American Iron and Steel Institute s Apparent Steel Supply (excluding semi-finished steel products), imports of steel into the United States constituted 20.4 percent, 20.2 percent and 22.3 percent of the domestic steel market supply for 2002, 2001 and 2000, respectively. Significant imports of steel into the United States have substantially reduced sales, margins and profitability of North American steel producers, and therefore, have reduced demand for iron ore. The purchase by North American steel producers of semi-finished steel products from foreign suppliers also will decrease demand for our iron ore products.

The U.S. government established various protective actions during 2001 and 2002, including the enactment of various steel import quotas and tariffs, which contributed to a decrease of some steel imports during 2002. However, these protective measures were only temporary, and many foreign steel manufacturers were granted exemptions from applications of these measures. Furthermore, some products (including iron ore and some semi-finished steel products) and some countries were not covered by these protective measures. On November 10, 2003, the highest trade court of the World Trade Organization issued a final decision declaring that the tariffs imposed by the United States on hot-rolled and cold-rolled finished steel imports violated global trade rules. Shortly after this decision was announced, a number of countries threatened to impose retaliatory tariffs on various products produced in the United States if the United States did not terminate its steel tariffs. On December 4, 2003, President Bush announced that the steel import quotas and tariffs would be lifted, effective at midnight on that day. At this time it is uncertain how the lifting of these measures will affect the North American steel industry, but the removal of these measures may lead to an increase of steel imports and result in a reduction of North American steel sales. The decreased North American steel sales could decrease demand for iron ore products and have a substantial negative impact on our sales, margins and profitability.

The North American steel industry is undergoing a restructuring process that has resulted in industry consolidation and is likely to result in a reduction of integrated steel making capacity over time and thereby reduce iron ore consumption.

The North American steel industry has undergone consolidation, and that consolidation is likely to continue. Consolidation of the North American steel industry will result in fewer customers for iron ore. The restructuring process may reduce integrated steel making capacity, which would reduce demand for our iron ore products and may adversely affect our sales. Further, if the steel producers that have captive iron ore mines obtain a larger share of the North American steel production, they may obtain their iron ore from their own mines, if they have excess capacity, rather than from us. These factors could adversely affect our sales, margins and profitability.

Our sales and earnings are subject to significant fluctuations as a result of the cyclical nature of the North American steel industry.

In 2002 and 2003, 14.5 million and 18.6 million tons, respectively, of the iron ore pellets we produced were sold to North American steel manufacturers, while only .2 million and .6 million tons, respectively, of our pellets were sold outside of North America. The North American steel industry has been highly cyclical in nature, influenced by a combination of factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, the strength of the U.S. automotive industry, levels of steel imports and applicable tariffs. The demand for steel products is generally affected by macroeconomic fluctuations in North America and the global economies in which steel companies sell their products. For example, future economic downturns, stagnant economies or currency fluctuations in the United States or globally could decrease the demand for steel products or increase the amount of imports of steel or iron ore into the United States.

In addition, a disruption or downturn in the oil and gas, gas transmission, construction, commercial equipment, rail transportation, appliance, agricultural, automotive or durable goods industries, all of which are significant markets for steel products and are highly cyclical, could negatively impact sales of steel by North American producers. These trends could decrease the demand for iron ore products and significantly adversely affect our sales, margins and profitability.

If North American steelmakers use methods other than blast furnace production to produce steel, or if their blast furnaces shut down or otherwise reduce production, the demand for our iron ore products may decrease, which would adversely affect our sales, margins and profitability.

Demand for our iron ore products is determined by the operating rates for the blast furnaces of North American steel companies. However, not all finished steel is produced by blast furnaces; finished steel also may be produced by other methods that do not require iron ore products. For example, steel mini-mills, which are steel recyclers, generally produce steel by using scrap steel, not iron ore pellets, in their electric furnaces. Production of steel by steel mini-mills was approximately 50 percent of North American total finished steel production in 2003. Steel producers also can produce steel using imported iron ore or semi-finished steel products, which eliminates the need for domestic iron ore. Environmental restrictions on the use of blast furnaces also may reduce our customers use of their blast furnaces. Maintenance of blast furnaces can require substantial capital expenditures. Our customers may choose not to maintain their blast furnaces, and some of our customers may not have the resources necessary to adequately maintain their blast furnaces. If our customers use methods to produce steel that do not use iron ore products, demand for our iron ore products will decrease, which could adversely affect our sales, margins and profitability.

Natural disasters, equipment failures and other unexpected events may lead our steel industry customers to curtail production or shut down their operations.

Operating levels at our steel industry customers are subject to conditions beyond their control, including raw material shortages, weather conditions, natural disasters, interruptions in electrical power or other energy services, interruptions in transportation services, equipment failures, strikes, lock-outs and other unexpected events. Any of those events could also affect other suppliers to the North American steel industry. In either case, those events could cause our steel industry customers to curtail production or shut down a portion or all of their operations, which could reduce their demand for our iron ore products. For example, in late 2003, a fire occurred in a mine of a major coal supplier to United States Steel Corporation, or U.S. Steel, which supplies a majority of the coke, a processed form of coal, used by our steel industry customers to operate their blast furnaces. The fire caused U.S. Steel to curtail its production of coke, and to reduce its coke shipments to at least two of our steel industry customers. As a result, one of our steel industry customers had to curtail its steel production, and its demand for our iron ore products decreased. Accordingly, as discussed below, that customer invoked the force majeure provision of its term supply agreement with us and reduced its requirements for our iron ore products in the first quarter of 2004 by 180,000 long tons. Another of our steel industry customers announced that it is exploring alternatives, including temporary curtailments of some of its steel-making operations, in order to deal with the coke shortage. Production of steel by our other steel industry customers may also be adversely affected by the failure of U.S. Steel to ship adequate supplies of coke to them. Decreased demand for our iron ore products could adversely affect our sales, margins and profitability.

If the rate of steel consumption in China slows, the demand for iron ore could decrease.

Although we do not have significant international sales, the price of iron ore is strongly influenced by international demand. The current growing level of international demand for iron ore and steel is largely due to the rapid industrial growth in China. A large quantity of steel is currently being used in China to build roads, bridges, railroads and factories. If the economic growth rate in China slows, which may be difficult to forecast, less steel will be used in construction and manufacturing, which would decrease demand for iron ore. This could adversely impact the world iron ore market, which would impact the North American iron ore market, and could also adversely impact our United Taconite LLC, or United Taconite, joint venture with Laiwu Steel Group Ltd., or Laiwu, of China.

Risks Relating to Our Company

We operate in a very competitive industry.

Iron ore resources are in abundant supply world-wide, and the iron mining business is highly competitive, with producers in all iron-producing regions. Some of our competitors may have greater financial resources than we have and may be better able to withstand changes in conditions within the North American steel industry than we are. In the future, we may face increasing competition. As a result, we may face pressures on sales prices and volumes of our products from competitors and large customers.

Our sales and competitive position depend on our ability to transport our products to our customers at competitive rates and in a timely manner.

Our competitive position is largely dependent on the ability to transport iron ore to our markets at competitive rates. Disruption of the lake freighter and rail transportation services because of weather-related problems, including ice and winter weather conditions on the Great Lakes, strikes, lock-outs or other events, could impair our ability to supply iron ore pellets to our customers at competitive rates or in a timely manner and, thus, could adversely affect our sales and profitability. Further, increases in transportation costs, or changes in such costs relative to transportation costs incurred by our competitors, could make our products less competitive, restrict our access to certain markets and have an adverse effect on our sales, margins and profitability.

If a substantial portion of our term supply agreements terminate and are not renewed, and we are unable to find alternate buyers willing to purchase our products on terms comparable to those in our existing term supply agreements, our sales, margins and profitability will suffer.

A substantial majority of our sales are made under term supply agreements, which are important to the stability and profitability of our operations. In 2003 and 2002, more than 94 percent of our sales volume was sold under term supply agreements. If a substantial portion of our term supply agreements were modified or terminated, we could be materially adversely affected to the extent that we are unable to renew the agreements or find alternate buyers for our iron ore at the same level of profitability. We cannot assure you that we will be able to renew or replace existing term supply agreements at the same prices or with similar profit margins when they expire. A loss of sales to our existing customers could have a substantial negative impact on our sales, margins and profitability.

We depend on a limited number of customers, and the loss of, or significant reduction in, purchases by our largest customers could adversely affect our sales.

The following six customers together accounted for a total of 93 percent and 79 percent of our total sales revenues in the years ended 2003 and 2002, respectively:

Customer	Percent of Sales Revenues Year Ended December 31, 2003	 2002
ISG	**30%**	21%
Algoma Steel Inc., or Algoma	**17**	19
Rouge	**16**	9
Weirton	**15**	21
Ispat Inland Inc., or Ispat Inland	**8**	1
WCI Steel Inc., or WCI	**7**	8
Total	**93%**	79%

If one or more of these customers were to significantly reduce their purchases of iron ore products from us, or if we were unable to sell iron ore products to them on terms as favorable to us as the terms under our current term supply agreements, our sales, margins and profitability could suffer materially due to the high level of fixed costs in the near term and the high costs to idle or close mines. We are a merchant mine producer of iron ore products, not a captive producer owned by a steel manufacturer, and therefore we rely on sales to our joint venture partners and other third party customers for our revenues. In addition, Weirton, WCI and Stelco Inc., or Stelco, have petitioned for protection under bankruptcy or similar laws, as discussed below, and the bankruptcy or reorganization of our customers could affect our sales, margins and profitability.

Changes in demand for our products by our customers could cause our sales, margins and profitability to fluctuate.

Our term supply agreements generally are requirements contracts, the majority of which have no minimum requirement provisions, and some of which provide for flexibility of volume above minimum levels. A decrease in one or more of our customers requirements could cause our sales to decline, as we may not be able to find other customers to purchase our iron ore pellets. In addition, if our customers requirements decline, since many of our production costs are fixed, our production costs per ton may rise, which may affect our margins and profitability. Unmitigated loss of revenues would have a greater impact on margins and profitability than sales, due to the high level of fixed costs in the iron ore mining business in the near term and the high cost to idle or close mines.

The provisions of our term supply agreements could cause our sales, margins and profitability to fluctuate.

Our term supply agreements typically contain force majeure provisions allowing temporary suspension of performance by the customer during specified events beyond the customer s control, including raw material shortages, power failures, equipment failures, adverse weather conditions and other events. For example, as noted above, one of our large customers notified us in January 2004 that it was reducing its requirements for iron ore pellets in the first quarter of 2004 by 180,000 long tons pursuant to the force majeure provisions of its term supply agreement with us. That customer invoked the force majeure provision due to a failure of U.S. Steel to ship the quantity of coke that the customer had ordered due to shortages caused by a fire at a mine that supplied coal to U.S. Steel. If the coke shortages continue, other customers may seek to reduce their iron ore supply requirements.

Price escalators in our term supply agreements also expose us to short-term price volatility, which can adversely affect our margins and profitability. Our term supply agreements also contain provisions requiring us to deliver iron ore pellets meeting quality thresholds for certain characteristics, such as chemical makeup. Failure to meet these specifications could result in economic penalties. All of these contractual provisions could adversely affect our sales, margins and profitability.

Mine closures entail substantial costs, and if we close one or more of our mines sooner than anticipated, our results of operations and financial condition may be significantly and adversely affected.

If we close any of our mines, our revenues would be reduced unless we were able to increase production at any of our other mines, which may not be possible. The closure of an open pit mine involves significant fixed closure costs, including accelerated employment legacy costs, severance-related obligations, reclamation and other environmental costs, and the costs of terminating long-term obligations, including energy contracts and equipment leases. We base our assumptions regarding the life of our mines on detailed studies we perform from time to time, but those studies and assumptions do not always prove to be accurate. We accrue for the costs of reclaiming open pits, stockpiles, tailings ponds, roads and other mining support areas over the estimated mining life of our property. If we were to reduce the estimated life of any of our mines, the fixed mine closure costs would be applied to a shorter period of production, which would increase production costs per ton produced and could significantly and adversely affect our results of operations and financial condition. Further, if we were to close one or more of our mines prematurely, we would incur significant accelerated employment legacy costs, severance-related obligations, reclamation and other environmental costs, as well as asset impairment charges, which could materially and adversely affect our financial condition.

A mine closure would significantly increase employment legacy costs, including our expense and funding costs for pension and other post-retirement benefit obligations. First, retirement-eligible employees would be eligible for enhanced pension benefits under certain pension plans upon a mine closure. Second, the number of employees who are eligible for retirement under the pension plans would increase under special eligibility rules that apply upon a mine closure. Third, all employees eligible for retirement under the pension plans at the time of the mine closure also would be eligible for post-retirement health and life insurance benefits, thereby accelerating our obligation to provide these benefits. Fourth, a closure of the Empire mine would likely terminate the status of the pension plan covering hourly employees at the Empire and Tilden mines as a multi-employer pension plan, causing more stringent minimum funding requirements to apply to that plan. Fifth, a closure of the Empire or Tilden mine likely would trigger withdrawal liability to the pension plan covering hourly employees at the Empire and Tilden mines. Finally, a mine closure could trigger significant severance-related obligations, which could adversely affect our financial condition and results of operations.

Applicable statutes and regulations require that mining property be reclaimed following a mine closure in accordance with specified standards and an approved reclamation plan. The plan addresses matters such as removal of facilities and equipment, regrading, prevention of erosion and other forms of water pollution, revegetation and post-mining land use. We may be required to post a surety bond or other form of financial assurance equal to the cost of reclamation as set forth in the approved reclamation plan. The establishment of the final mine closure reclamation liability is based upon permit requirements and requires various estimates and assumptions, principally associated with reclamation costs and production levels. Although our management believes, based on currently available information, we are making adequate provisions for all expected reclamation and other costs associated with mine closures for which we will be responsible, our business, results of operations and financial condition would be adversely affected if such accruals were later determined to be insufficient.

We have significantly reduced our ore reserve estimates for the Empire mine and may close the Empire mine sooner than we had anticipated, which could materially and adversely affect our results of operations and financial condition.

We significantly decreased our ore reserve estimates for the Empire mine from 116 million tons in 2002 to 63 million tons in 2003 and further to 29 million tons in 2004. The 2004 reductions were due to our inability to develop effective mine plans to produce cost-effective combinations of production volume, ore quality and stripping requirements. We may reduce the annual production at the Empire mine as a result of these decreased ore reserve estimates. If the ore reserves at Empire are insufficient to sustain our operations there, we may be required to close the mine. We have taken significant asset impairment charges relating to the Empire mine.

If we were to close the Empire mine, we would incur significant mine closure costs, employment legacy costs, severance-related obligations, reclamation and other environmental costs and the costs of terminating long-term obligations, including energy contracts and equipment leases. A closure of the Empire mine sooner than we anticipate could materially and adversely affect our results of operations and financial condition.

We rely on the estimates of our recoverable reserves, and if those estimates are inaccurate, our financial condition may be adversely affected.

We regularly evaluate our economic iron ore reserves based on expectations of revenues and costs and update them as required in accordance with Industry Guide 7 promulgated by the SEC. There are numerous uncertainties inherent in estimating quantities of reserves of our mines, many of which have been in operation for several decades, including many factors beyond our control. Estimates of reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions concerning future prices for iron ore, assumptions regarding future industry conditions and operating costs, severance and excise taxes, development costs and costs of extraction and reclamation costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of future net cash flows expected therefrom prepared by different engineers or by the same engineers at different times may vary substantially. Estimated reserves could be affected by future industry conditions, geological conditions and ongoing mine planning. Actual production, revenues and expenditures with respect to our reserves will likely vary from estimates, and if such variances are material, our sales and profitability could be adversely affected. For example, based on revised economic mine planning studies that we completed in the fourth quarter of 2002, we reduced the estimates of the ore reserves at the Empire mine from 116 million tons to 63 million tons due to increasing mining and processing costs. Based on an update to those studies completed in the fourth quarter of 2003, we further significantly reduced the ore reserve estimates to 29 million tons. The reduction is due to the inability to develop effective mine plans to produce cost-effective combinations of production volume, ore quality and stripping requirements with the 2003 reserve base. Studies are ongoing to identify the optimum production rate, and consequently mine life, for Empire. The evaluation of satellite mineral resources has also been initiated for potential additions to Empire s reserve base.

We also completed revised economic mine planning studies in the fourth quarter of 2002 for our Wabush mine, and we reduced our estimate of ore reserves at the Wabush mine from 244 million tons to 94 million tons due to increasing mining and processing costs. Based on an update to those studies completed in the fourth quarter of 2003, we further significantly reduced the Wabush mine ore reserve estimate to 61 million tons. The revised Wabush estimate is largely a reflection of increased operating costs, the impact of currency exchange rates and a reduction in maximum mining depth due to dewatering capabilities based on a recently completed hydrologic evaluation.

The price adjustment provisions of our term supply agreements may prevent us from increasing our prices to match international ore contract prices or to pass increased costs of production on to our customers.

Our term supply agreements contain a number of price adjustment provisions, or price escalators, including adjustments based on general industrial inflation rates, the price of steel and the international price of iron ore pellets, among other factors, that allow us to adjust the prices under those agreements generally on an annual basis. Our price adjustment provisions are weighted and some are subject to annual collars, which limit our ability to raise prices to match international levels and fully capitalize on strong demand for iron ore. Most of our term supply agreements do not allow us to increase our prices and to directly pass through higher production costs to our customers. An inability to increase prices or pass along increased costs could adversely affect our margins and profitability.

Our sales, margins and profitability may be significantly affected by the bankruptcy or reorganization of our customers.

The volatility, fluctuating prices, level of imports and low demand affecting the North American steel industry have severely impacted the ability of many North American steelmakers to generate profits. Many North American steelmakers, particularly large integrated steel producers, have been hampered with significant legacy costs, particularly underfunded pension obligations and significant retiree health obligations. Since 1997, approximately 49 North American steelmakers have filed for bankruptcy, reorganization, restructuring or similar protection including Acme Steel Corporation, Algoma, Bethlehem Steel Corporation, Geneva Steel Holdings Corp., Gulf States Steel, LTV Steel Company, National Steel Corporation, Slater Steel Inc. and Wheeling-Pittsburgh Steel Corporation. Since May 2003, four of our North American steel industry customers, WCI, Weirton, Rouge, and Stelco petitioned for protection under bankruptcy or other similar laws.

Financially distressed customers may be unable to perform under their agreements with us and, if they file for protection under bankruptcy or other similar laws, they may be able to reject their agreements with us pursuant to the operation of those laws. Such laws may enable a customer under bankruptcy protection to reject its existing term supply agreement with us, which may adversely affect our sales and profitability. In effect, such laws may allow the customer (or a party that might acquire the customer s business through the bankruptcy process) to renegotiate the customer s existing term supply agreement with us or to pursue arrangements with another pellet supplier without penalty.

We cannot assure that WCI, Weirton and Stelco will successfully emerge from bankruptcy or restructuring or that they will continue to meet their obligations under their agreements with us. We currently have trade receivable exposure of $4.9 million to WCI (which was reserved against in the third quarter of 2003). We currently have an agreement to sell iron ore pellets to Weirton, but we cannot assess whether Weirton will successfully emerge from bankruptcy. We invested $10.4 million for a 40.6 percent interest in a joint venture that acquired certain steam generating and power-related assets from FW Holding in 2001 and leased such assets back to FW Holding with a guaranty of such lease by Weirton in a purchase-leaseback arrangement. As noted under Summary The Company Recent Developments, FW Holding filed a petition for chapter 11 bankruptcy protection on February 26, 2004 and challenged the validity of the lease agreement. We sold Rouge 1.4 million tons of pellets in fiscal 2002 and 3.0 million tons in 2003. At the time of Rouge s bankruptcy petition, we had no trade receivable exposure to Rouge. The bankruptcy or reorganization of our largest customers could have a significant impact on our sales, margins and profitability.

Our ability to collect payments from our customers depends on their creditworthiness.

Our ability to receive payment for iron ore products sold and delivered to our customers depends on the creditworthiness of our customers. Generally, we deliver iron ore products to our customers in advance of payment for those products, and title and risk of loss with respect to those products does not pass to the customer until payment for the pellets is received. Accordingly, there is typically a period of time in which pellets, as to which we have reserved title, are within our customers control. As discussed above, several of our customers have petitioned for protection under bankruptcy or other similar laws, and most of our North American customers have below-investment grade or no credit rating. Failure to receive payment from our customers for products that we have delivered could adversely affect our results of operations.

Our change in strategy from a manager of iron ore mines on behalf of steel company owners to primarily a merchant of iron ore to steel company customers has increased our obligations with respect to those mines and has made our revenues, earnings and profit margins more dependent on sales of iron ore products and more susceptible to product demand and pricing fluctuations.

Historically, we have acted as a manager of iron ore mines on behalf of steel company owners and in that capacity have been generally entitled to management fees, royalties on reserves that we have leased or subleased to the Empire and Tilden mines and income from our sales of iron ore products to our customers, including the other mine owners. Our revised business strategy is to increase our ownership in our co-owned mines. In accordance with that revised strategy, in fiscal year 2002 we increased our ownership in (1) the Empire mine from 47 percent to 79 percent, (2) the Tilden mine from 40 percent to 85 percent, (3) the Hibbing mine from 15 percent to 23 percent, and (4) the Wabush mine from 23 percent to 27 percent. While we have gained greater control of the mines we operate, we have also increased our share of the operating costs, employment legacy costs and financial obligations associated with those mines. Our increased ownership of those mines has caused the management fees and royalties due to us from our partners in the mines to decline from $29.8 million in 2001 to $10.6 million in 2003. The decline in royalties and management fees has made our revenues, earnings and profit margins more volatile and more dependent on sales of our iron ore products to third party customers.

We rely on our joint venture partners in our mines to meet their payment obligations, and the inability of a joint venture partner to do so could significantly affect our operating costs.

We co-own five of our six mines with various joint venture partners that are integrated steel producers or their subsidiaries, including Dofasco Inc., ISG, Ispat Inland, Laiwu and Stelco. While we are the manager of each of the mines we co-own, we rely on our joint venture partners to make their required capital contributions and to pay for their share of the iron ore pellets that we produce. Most of our venture partners are also our customers and are subject to the creditworthiness risks described above. If one or more of our venture partners fail to perform their obligations, the remaining venturers, including ourselves, may be required to assume additional material obligations, including significant pension and post-retirement health and life insurance benefit obligations. On January 29, 2004, Stelco applied and obtained bankruptcy-court protection from creditors in the Ontario Superior Court under the Companies Creditors Arrangement Act. Stelco is a 44.6 percent participant in the Wabush Mines joint venture, and U.S. subsidiaries of Stelco (which are not believed to have filed for bankruptcy protection) own 14.7 percent of Hibbing Taconite Company Joint Venture and 15 percent of Tilden Mining Company L.C. Stelco has met its cash call requirements at the mining ventures to date. The Company currently expects Stelco to continue its participation in the mining ventures. The premature closure of a mine due to the failure of a joint venture partner to perform its obligations could result in significant fixed mine closure costs, including severance, employment legacy costs and other employment costs, reclamation and other environmental costs, and the costs of terminating long-term obligations, including energy contracts and equipment leases.

Unanticipated geological conditions and natural disasters could increase the cost of operating our business.

A portion of our production costs are fixed regardless of current operating levels. Our operating levels are subject to conditions beyond our control that can delay deliveries or increase the cost of mining at particular mines for varying lengths of time. These conditions include weather conditions (for example, extreme winter weather, floods and availability of process water due to drought) and natural disasters, pit wall failures, unanticipated geological conditions, including variations in the amount of rock and soil overlying the deposits of iron ore, variations in rock and other natural materials and variations in geologic conditions and ore processing changes. These conditions could impair our ability to fulfill our plan to operate all of our mines at full capacity, which could materially adversely affect our ability to meet the expected demand for our iron ore products.

In the second and third quarters of 2003, pellet production at the Tilden mine was adversely affected by approximately .3 million tons as a result of unexpected variations in the composition of the iron ore in one area of the mining pit, which made the ore difficult to process, causing low throughput and recovery rates.

Many of our mines are dependent on a single source energy supplier, and interruption in energy services may have a significant adverse effect on our sales, margins and profitability.

Many of our mines are dependent on one source for electric power and for natural gas. For example, Minnesota Power is the sole supplier of electric power to our Hibbing and United Taconite mines; Wisconsin Energy Company is the sole supplier of electric power to our Tilden and Empire mines; and our Northshore mine is largely dependent on its wholly owned power facility for its electrical supply. A significant interruption in service from our energy suppliers due to terrorism or any other cause can result in substantial losses that may not be fully covered by our business interruption insurance. For example, in May 2003, we incurred approximately $11.1 million in fixed costs relating to lost production when our Empire and Tilden mines were idled for approximately five weeks due to loss of power stemming from the failure of a dam in the Upper Peninsula of Michigan. One natural gas pipeline serves all of our Minnesota and Michigan mines, and a pipeline failure may idle those operations. Any substantial unmitigated interruption of our business due to these conditions could materially adversely affect our sales, margins and profitability.

Equipment failures and other unexpected events at our facilities may lead to production curtailments or shutdowns.

Interruptions in production capabilities will inevitably increase our production costs and reduce our profitability. We do not have meaningful excess capacity for current production needs, and we are not able to quickly increase production at one mine to offset an interruption in production at another mine. In addition to equipment failures, our facilities are also subject to the risk of loss due to unanticipated events such as fires, explosions or adverse weather conditions. The manufacturing processes that take place in our mining operations, as well as in our crushing, concentrating and pelletizing facilities, depend on critical pieces of equipment, such as drilling and blasting equipment, crushers, grinding mills, pebble mills, thickeners, separators, filters, mixers, furnaces, kilns and rolling equipment, as well as electrical equipment, such as transformers. This equipment may, on occasion, be out of service because of unanticipated failures. In addition, many of our mines and processing facilities have been in operation for several decades, and the equipment is aged. For example, in November 2003, our Tilden facility experienced a crack in a kiln riding ring that required the shutdown of that kiln in its pelletizing plant, resulting in a production loss of approximately .3 million tons. In the future, we may experience additional material plant shutdowns or periods of reduced production because of equipment failures. Material plant shutdowns or reductions in operations could materially adversely affect our sales, margins and profitability. Further, remediation of any interruption in production capability may require us to make large capital expenditures that could have a negative effect on our profitability and cash flows. Our business interruption insurance would not cover all of the lost revenues associated with equipment failures. Further, longer-term business disruptions could result in a loss of customers, which could adversely affect our future sales levels, and therefore our profitability.

We are subject to extensive governmental regulation, which imposes, and will continue to impose, significant costs and liabilities on us, and future regulation could increase those costs and liabilities or limit our ability to produce iron ore products.

We are subject to various federal, provincial, state and local laws and regulations on matters such as employee health and safety, air quality, water pollution, plant and wildlife protection, reclamation and restoration of mining properties, the discharge of materials into the environment, and the effects that mining has on groundwater quality and availability. Numerous governmental permits and approvals are required for our operations. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators.

Prior to commencement of mining, we must submit to, and obtain approval from, the appropriate regulatory authority of plans showing where and how mining and reclamation operations are to occur. These plans must include information such as the location of mining areas, stockpiles, surface waters, haul roads, tailings basins and drainage from mining operations. All requirements imposed by any such authority may be costly and time-consuming and may delay commencement or continuation of exploration or production operations.

In addition, new legislation and/or regulations and orders, including proposals related to the protection of the environment, to which we would be subject or that would further regulate and/or tax our customers, namely the North American integrated steel producer customers, may also require us or our customers to reduce or otherwise change operations significantly or incur costs. Such new legislation, regulations or orders (if enacted) could have a material adverse effect on our business, results of operations, financial condition or profitability. In particular, we are subject to the new rules promulgated by the U.S. Environmental Protection Agency that will require us to utilize Maximum Achievable Control Technology, or MACT, standards for our air emissions by 2006. The costs, including capital expenditures, that we will incur in order to meet the new MACT standards may be substantial.

Further, we are subject to a variety of potential liability exposures arising at certain sites where we do not currently conduct operations. These sites include sites where we formerly conducted iron ore mining or processing or other operations, inactive sites that we currently own, predecessor sites, acquired sites, leased land sites and third-party waste disposal sites. While we believe our liability at sites where claims have been asserted will not have a material adverse effect on our financial condition, liquidity or results of operations, we may be named as a responsible party at other sites in the future, and we cannot assure you that the costs associated with these additional sites will not be material.

We could also be held liable for any and all consequences arising out of human exposure to hazardous substances used, released or disposed of by us or other environmental damage, including damage to natural resources. In particular, we and certain of our subsidiaries are involved in various claims relating to the exposure of asbestos and silica to seamen who sailed on the Great Lakes vessels formerly owned and operated by certain of our subsidiaries. The full impact of these claims, as well as whether insurance coverage will be sufficient and whether other defendants named in these claims will be able to fund any costs arising out of these claims, continues to be unknown. Based on currently available information, however, we believe the resolution of currently pending claims in the aggregate would not reasonably be expected to have a material