MESABI TRUST
Form 10-Q
December 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 31, 2008

or

o **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)

New York (State or other jurisdiction of incorporation or organization)	**13-6022277** (I.R.S. Employer Identification No.)
c/o Deutsche Bank Trust Company Americas Trust & Securities Services GDS 60 Wall Street 27th Floor New York, New York (Address of principal executive offices)	**10005** (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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act:

Large accelerated filer o Accelerated filer x Non-accelerated filer o Small Reporting Company o

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements. (Note 1)

Mesabi Trust

Condensed Statements of Income

Three and Nine Months Ended October 31, 2008 and 2007

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008 (unaudited)	**2007 (unaudited)**	**2008 (unaudited)**	**2007 (unaudited)**
A. Condensed Statements of Income				
Revenues				
Royalty income	$ 11,778,367	$ 6,690,125	$ 32,392,640	$ 12,896,302
Interest income	17,749	12,930	37,086	27,293
	11,796,116	6,703,055	32,429,726	12,923,595
Expenses	138,805	109,924	562,446	456,707
Net income	$ 11,657,311	$ 6,593,131	$ 31,867,280	$ 12,466,888
Number of units outstanding	13,120,010	13,120,010	13,120,010	13,120,010
Net income per unit (Note 2)	$ 0.8885	$ 0.5025	$ 2.4289	$ 0.9502
Distributions declared per unit (Note 3)	$ 1.2500	$ 0.4800	$ 2.3700	$ 0.8350

See Notes to Condensed Financial Statements.

Mesabi Trust

Condensed Balance Sheets

October 31, 2008 and January 31, 2008

	October 31, 2008 (unaudited)	January 31, 2008
B. Condensed Balance Sheets		
Assets		
Cash and cash equivalents	$ 16,698,667	$ 6,959,701
U.S. Government securities, at amortized cost (which approximates market)	565,252	544,193
Accrued income receivable	1,551,874	959,925
Prepaid expenses	53,533	24,687
	18,869,326	8,488,506
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
	$ 18,869,329	$ 8,488,509
Liabilities, Unallocated Reserve and Trust Corpus		
Liabilities		
Distribution payable	$ 16,400,013	$ 6,756,805
Accrued expenses	36,435	71,680
	16,436,448	6,828,485
Unallocated Reserve (Note 4)	2,432,878	1,660,021
Trust Corpus	3	3
	$ 18,869,329	$ 8,488,509

See Notes to Condensed Financial Statements.

Mesabi Trust

Condensed Statements of Cash Flows

Nine Months Ended October 31, 2008 and 2007

	Nine Months Ended October 31,	
	2008 (unaudited)	**2007 (unaudited)**
C. Condensed Statements of Cash Flows		
Cash flows from operating activities		
Royalties received	$ 31,795,442	$ 11,341,053
Interest received	39,785	33,523
Expenses paid	(623,987)	(555,489)
Net cash provided by operating activities	31,211,240	10,819,087
Cash flows from investing activities		
Maturities of U.S. Government Securities	368,954	9,464,477
Purchases of U.S. Government Securities	(390,012)	(9,231,258)
Net cash provided by (used for) investing activities	(21,058)	233,219
Cash flow used for financing activities		
Distributions to Unitholders	(21,451,216)	(8,790,406)
Net change in cash and cash equivalents	9,738,966	2,261,900
Cash, beginning of year	6,959,701	4,258,201
Cash, end of period	$ 16,698,667	$ 6,520,101
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 31,867,280	$ 12,466,888
Increase in accrued income receivable	(591,949)	(1,549,019)
Increase in prepaid expenses	(28,846)	(16,031)
Decrease in accrued expenses	(35,245)	(82,751)
Net cash provided by operating activities	$ 31,211,240	$ 10,819,087

See Notes to Condensed Financial Statements.

MESABI TRUST

NOTES TO CONDENSED FINANCIAL STATEMENTS

October 31, 2008 (Unaudited)

Note 1. The financial statements included herein have been prepared without audit (except for the balance sheet at January 31, 2008) 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 and nine months ended October 31, 2008 and 2007, (b) the financial position at October 31, 2008 and (c) the cash flows for the nine months ended October 31, 2008 and 2007, have been made.

Note 2. Net income per unit includes accrued income receivable. For the three months ended October 31, 2008 the Trust recorded $1,551,874 of accrued income receivable as reflected on the Condensed Balance Sheet as of October 31, 2008 (unaudited). Accrued income receivable is accounted for and reported for the Trust s third fiscal quarter based on shipments during the month of October even though such accrued income receivable is not available for distribution to unitholders until it is actually received by the Trust at the end of January 2009. Net income per unit is based on 13,120,010 units outstanding during the period.

Note 3. The Trust declares distributions each year in April, July, October and January. Distributions are declared after receiving notification from Northshore Mining Company as to the amount of royalty income that is expected to be paid to the Trust 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 are declared based on royalty income 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 income as it is received quarterly and the level of Trust expenses that the Trustees anticipate occurring in subsequent quarters. At October 31, 2008, the Unallocated Reserve consisted of $881,004 (unaudited) in unallocated cash and U.S. Government securities, and $1,551,874 (unaudited) of accrued

revenue primarily representing royalties not yet received by the Trust but anticipated to be received from Northshore Mining Company in January 2009 based upon reported lessee shipping activity during the month of October 2008.

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 and Section 27A of the Securities Act of 1933. All such forward-looking statements, including those statements estimating iron ore pellet production or shipments, 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, anticipa estimate, continue, potential, plan, should, assume, forecast and other similar words. Such forward-looking statements are inherently s 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 volatility of iron ore and steel prices, product supply and demand, competition, 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. 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 in Part I Item 1A of Mesabi Trust s Annual Report on Form 10-K for the year-ended January 31, 2008, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q. 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.

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 the Mesabi Land Trust (as such term is defined below) 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 Mining Company (Northshore), the lessee/operator of 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 Mesabi Trust s revenue. Royalty rates are determined in accordance with the terms of Mesabi 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 Mesabi 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 Mesabi 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 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 subject to price adjustments under the Cliffs Pellet Agreements and, as described elsewhere in this report, such adjustments may be positive or negative.

- Royalty bonuses. Mesabi Trust earns royalty bonuses when iron ore products shipped from Silver Bay are sold at prices above a threshold price. The royalty bonus is 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 $45.98 per ton for calendar year 2007 and is $47.43 for calendar year 2008. 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 Mesabi 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 $766,510 for calendar year 2007 and is $790,721 for calendar year 2008. Until 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 agreements, Northshore has the right to mine and ship iron ore products from lands other than Mesabi Trust lands. Based on its current mining and engineering plan, Northshore alone determines whether to conduct mining operations on Trust and/or such other lands. The Trustees do not exert any influence over mining operational decisions. To encourage the use of iron ore products from Mesabi Trust lands, Mesabi Trust receives royalties on stated percentages of iron ore shipped from Silver Bay, whether or not the iron ore products are from Mesabi Trust lands. Mesabi Trust receives royalties at the greater of (i) the aggregate quantity of iron ore products shipped that were 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 such year, 85% of the next two million tons shipped during such year, and 25% of all tonnage shipped during such year in excess of six million tons.

Northshore is obligated to make royalty payments in January, April, July and October of each year based on shipments of iron ore products from Silver Bay during each calendar quarter. The Trust accounts and reports accrued income receivable based on shipments during the last month of the Trust s fiscal quarter (April, July, October and January) even though such accrued income receivable is not available for distribution to unitholders until it is received by the Trust. The Trust declares distributions each year in April, July, October and January. Distributions are declared after receiving notification from Northshore Mining Company as to the amount of royalty income that is expected to be paid to the Trust based on shipments through the end of each calendar quarter. Accordingly, 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.

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. 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 and Nine Months Ended October 31, 2008 and October 31, 2007

As shown in the table below, production of iron ore pellets at Northshore from Mesabi Trust lands during the fiscal quarter ended October 31, 2008 totaled approximately 1.0 million tons and actual shipments over the same period totaled approximately 1.5 million tons. By comparison, actual pellet production during the same period in 2007 totaled approximately 1.33 million tons, and actual shipments approximated 1.36 million tons.

Three Months Ended	Pellets Produced from Trust Lands (Tons)	Shipments of Pellets from Trust Lands (Tons)
October 31, 2008	995,398	1,503,256
October 31, 2007	1,330,789	1,357,247

The 25.2% decrease in production, as compared to the prior comparable period, is partially attributable to a reduction in production due to scheduled maintenance and repairs at Northshore. The 10.7% increase in shipments from Trust lands is attributable to the fact that Northshore shipped more iron ore products from lands owned by Mesabi Trust during the three months ended October 31, 2008 as compared to the three months ended October 31, 2007. See the discussion below under the heading Recent Developments, Idling of Pellet Furnaces and in Part II, Item 1A Risk Factors, for more information about Cliffs announcement of the idling of two pellet furnaces at Northshore and the potential impact on the Trust.

For the nine months ended October 31, 2008, production of iron ore pellets at Northshore from Mesabi Trust lands totaled approximately 3.69 million tons, and actual shipments over the same period totaled approximately 5.09 million tons. By comparison, actual pellet production during the same period in 2007 totaled approximately 3.54 million tons, and actual shipments approximated 2.95 million tons.

Nine Months Ended	Pellets Produced from Trust Lands (Tons)	Shipments of Pellets from Trust Lands (Tons)
October 31, 2008	3,685,182	5,092,258
October 31, 2007	3,539,856	2,946,545

Production for the nine months ended October 31, 2008 exceeded production during the same period ended October 31, 2007 by approximately 4.1%. Shipments for the nine months ended October 31, 2008 increased 72.8% compared to the nine months ended October 31, 2007.

Comparison of Royalty Income for the Three and Nine Months Ended October 31, 2008 and October 31, 2007

Total royalty income for the three months ended October 31, 2008 was $11,778,367. This represents an increase of approximately 76.1% as compared to the comparable prior period. Base overriding royalties increased 90.2% to $7,722,825 and bonus royalties increased 58.2% to $ 3,940,960.

The increase in base overriding royalties is the result of a significant increase in the average sales price per ton of iron ore pellets, and a substantial increase in the volume of shipments of iron ore pellets from Trust lands through October 31, 2008. The substantial increase in the volume of shipments resulted in the shipment of additional tons at higher royalty rates, as compared to the three months ended October 31, 2007, thereby contributing to the higher base royalty payment. Similarly, the increase in bonus royalties is primarily due to higher contract prices for shipped iron ore products resulting in an increased bonus royalty amount, which is calculated by multiplying the applicable royalty rate by the difference between the sales price per ton and the adjusted threshold price for 2008 of $47.43 per ton. Fee royalties paid to the Mesabi Land Trust decreased slightly for the three months ended October 31, 2008, as compared to October 31, 2007. The following table summarizes the components of the total royalty income received by Mesabi Trust during the three months ended October 31, 2008 and October 31, 2007.

	Three Months Ended October 31,	
	2008	2007
Base overriding royalties	$ 7,722,825	$ 4,059,893
Bonus royalties	3,940,960	2,491,383
Minimum advance royalty paid (recouped)		
Fee royalties	114,582	138,849
Total royalty income	$ 11,778,367	$ 6,690,125

Total royalty income for the nine months ended October 31, 2008 increased 151% from the prior comparable period to $32,392,640. Base overriding royalties increased 178% to $19,635,564 and bonus royalties also increased 126% to $12,350,997 for the nine months ended October 31, 2008. The increase in base overriding royalties received by the Trust is the result of higher contract prices for shipped iron ore products and significantly higher volume of total shipments of iron ore from Trust lands through October 31, 2008, each as compared to the prior comparable period. The increase in bonus royalties received by the Trust is also due to higher contract prices for shipped iron ore resulting in a substantial increase in the bonus royalty amount, which is calculated by multiplying the applicable royalty rate by the difference between the sales price per ton and the adjusted threshold price for 2008 of $47.43 per ton. Fee royalties paid to the Mesabi Land Trust increased approximately 13.6% to $406,079 for the nine months ended October 31, 2008. The following table summarizes the components of Mesabi Trust s total royalty income for the nine months ended October 31, 2008 and October 31, 2007.

	Nine Months Ended October 31,	
	2008	2007
Base overriding royalties	$ 19,635,564	$ 7,063,974
Bonus royalties	12,350,997	5,474,730
Minimum advance royalty paid (recouped)		
Fee royalties	406,079	357,598
Total royalty income	$ 32,392,640	$ 12,896,302

Based on information that has been made publicly available by Cliffs and certain of Cliffs customers that are party to the Cliffs Pellet Agreements, the Trustees understand that worldwide demand for both steel and iron ore products has decreased significantly during the fourth quarter of 2008. While the Trustees are unable to predict the impact this decrease in demand will have on prices of iron ore products, for the reasons discussed below under the heading Recent Developments, Idling of Pellet Furnaces and in Part II, Item 1A Risk Factors, the Trustees believe that Mesabi Trust is likely to encounter a significant decrease in total royalty income for the three months ending January 31, 2009 which could extend into calendar year 2009.

Comparison of Trust Income and Expenses for the Three and Nine Months Ended October 31, 2008 and October 31, 2007

Net income for the fiscal quarter ended October 31, 2008 was $11,657,311, an increase of approximately 76.8% as compared to the quarter ended October 31, 2007. The significant increase in net income is the result of increased base overriding royalties and bonus royalties. Interest income received by Mesabi Trust increased 37.3% as compared to the prior comparable period primarily due to an increase in the total investments held by Mesabi Trust. Expenses increased 26.3% from the prior comparable period to $138,805, primarily due to slightly higher legal and accounting fees incurred in the administration of the Trust. The following is a summary of Mesabi Trust s income and expenses for the three months ended October 31, 2008 and October 31, 2007.

	Three Months Ended October 31,	
	2008	2007
Total royalty income	$ 11,778,367	$ 6,690,125
Interest income	17,749	12,930
Gross income	11,796,116	6,703,055
Expenses	138,805	109,924
Net income	$ 11,657,311	$ 6,593,131

Net income for the nine months ended October 31, 2008 was $31,867,280, an increase of approximately 156% as compared to the nine months ended October 31, 2007. This increase is primarily attributable to significantly higher base overriding royalties and bonus royalties, as compared to the nine months ended October 31, 2007. Interest income received by Mesabi Trust increased 35.9% from the prior comparable period due to an increase in the total investments held by Mesabi Trust. Expenses increased 23.2% from the prior comparable period to $562,446. The following table summarizes Mesabi Trust s income and expenses for the nine months ended October 31, 2008 and October 31, 2007.

	Nine Months Ended October 31,	
	2008	2007
Total royalty income	$ 32,392,640	$ 12,896,302
Interest income	37,086	27,293
Gross income	32,429,726	12,923,595
Expenses	562,446	456,707
Net income	$ 31,867,280	$ 12,466,888

Unallocated Reserve

The Unallocated Reserve as of October 31, 2008 was $2,432,878, a decrease of 8.2% as compared to the $2,651,353 of Unallocated Reserve as of October 31, 2007. The decrease in the Unallocated Reserve is due to a decrease in the accrued income receivable of the Trust at the end of the fiscal quarter ended October 31, 2008. As of October 31, 2008, $1,551,874, or 64% of the Unallocated Reserve was accrued income receivable, representing royalties not yet received by the Trust but anticipated to be received from Northshore in January 2009 for shipments during the fourth calendar quarter. By comparison, at October 31, 2007, $1,958,783, or approximately 74% of the Unallocated Reserve was accrued revenue. The 20.8% decrease in accrued income receivable is based upon reported lessee shipping activity for the month of October 2008. Accrued income receivable is reflected on the balance sheet at October 31, 2008. The Trustees anticipate that substantially all of the $1,551,874 in accrued income receivable will be distributed to Unitholders in January 2009, after the Trustees provide for expenses and unexpected loss contingencies.

The Trustees have determined that a portion of the Unallocated Reserve, usually within the range of $500,000 to $1,000,000 or such other amount as the Trustees may deem prudent, should be maintained for unexpected loss contingencies. As of October 31, 2008, $881,004, or 36% of the Unallocated Reserve, was represented by unallocated cash and U.S. Government securities, whereas, at October 31, 2007, $692,570, or 26% of the Unallocated Reserve was unallocated cash and U.S. Government securities.

The Trust s Unallocated Reserve as of October 31, 2008 increased 47% or $772,857 as compared to the Unallocated Reserve at January 31, 2008. This increase in the Unallocated Reserve is primarily due to an increase in the accrued income receivable based on shipments from Northshore during the month of October 2008. At January 31, 2008, approximately 58% of the Unallocated Reserve or $959,925 was represented by accrued income receivable while 42% or $700,096 was represented by unallocated cash and U.S. Government securities.

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 income as it is received and the level of Trust expenses. The amount of future royalty income available for distribution will be subject to the volume of iron ore product shipments and the dollar level of sales by Northshore. The Trustees will continue to monitor the economic circumstances of the Trust to strike a responsible balance between distributions to Unitholders and the need to maintain reserve for unexpected loss contingencies at a prudent level, given the unpredictable nature of the iron ore industry, the Trust s dependence on the actions of the lessee/operator, and the fact that the Trust essentially has no other liquid assets.

Recent Developments

Production and Shipments. In its Form 10-Q filed October 31, 2008, Cliffs reported that production at Northshore for the three months ended September 30, 2008 was 1.6 million tons and total production for the nine months ended September 30, 2008 was approximately 4.4 million tons. Comparatively, production of iron ore pellets at Northshore for the three and nine months ended September 30, 2007 was 1.3 million tons and 3.9 million tons, respectively. In its Form 10-Q filed October 31, 2008, Cliffs reported that it is estimating total production of 5.5 million tons of iron ore pellets at Northshore during calendar year 2008, reflecting a downward adjustment from the 5.7 million tons it previously estimated. Northshore has not provided the Trustees with an estimate of total expected shipments of iron ore pellets for calendar year 2008.

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Even though Northshore has not provided the Trustees with an estimate of total expected shipments of iron ore pellets for the remainder of calendar year 2008, the 20.8% decrease in accrued income receivable, from $1,958,783 as of October 31, 2007 to $1,551,874 as of October 31, 2008, represents a significant decline in shipments from Trust lands during the month of October 2008. Based on the current global economic environment and for the reasons discussed below under the heading Recent Developments, Idling of Pellet Furnaces and in Part II, Item 1A Risk Factors, the Trustees believe that Mesabi Trust is likely to encounter a potentially significant decrease in total royalty income for the three months ending January 31, 2009 as compared to the three months ended January 31, 2008.

During calendar years 2007, 2006, 2005, 2004 and 2003, the percentage of shipments of iron ore products from Mesabi Trust lands was approximately 88.2%, 90.9%, 90.1%, 92.0% and 95.5%, respectively, of total shipments. Northshore has not advised the Trustees as to the percentage of iron ore products from Mesabi Trust lands it anticipates shipping in calendar year 2008. See the description of the uncertainty of market conditions in the iron ore and steel industry under Important Factors Affecting Mesabi Trust below and the information under the heading Risk Factors in Part I Item 1A of the Trust s Annual Report on Form 10-K for the year-ended January 31, 2008, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

Idling of Pellet Furnaces. In its Form 8-K filed October 28, 2008, Cliffs announced that it was initiating production curtailments at two of its six North American iron ore mines both of which are located in Minnesota. Cliffs reported that it would temporarily idle two small pellet furnaces at Northshore Mining and one small pellet furnace at United Taconite. On a combined basis, the three furnaces have monthly pellet production capacity of approximately 300,000 tons. Cliffs also reported that it was initiating the curtailments to bring production levels in line with demand, that the idling of the furnaces was to take effect immediately and is expected to result in workforce adjustments at both locations.

Cliff s announcement that it is reducing production at Northshore to bring production capacity in line with demand is likely to result in reduced shipments from Trust lands for the remainder of calendar year 2008 and possibly continuing into 2009. While the Trustees cannot predict the full impact of Cliffs announcement on the Trust s total royalty income, the Trustees believe that production and shipments of iron ore products mined from Trust lands may decrease sharply and that such decrease could continue into calendar year 2009.

Northshore Administrative Permit Amendment. As reported in the Trust s Form 10-K filed April 11, 2008, according to Cliffs Form 10-K filed February 29, 2008, on December 16, 2006, Cliffs submitted an administrative permit amendment application to the Minnesota Pollution Control Agency (MPCA) with respect to Northshore s Title V operating permit. Cliffs reported that Northshore requested an amendment to its permit to delete a 30 year old control city monitoring requirement but the MPCA denied Northshore s application on February 23, 2007. In its Form 10-K, Cliffs further reported that it had appealed the denial of its application to the Minnesota Court of Appeals and that subsequent to the filing of the appeal, the MPCA advised Northshore that the MPCA considered Northshore to be in violation of the control city standard. Cliffs also reported that it was in discussions with the MPCA with respect to the terms of a compliance schedule in which it would agree to take certain actions in settlement of the alleged violation. According to Cliffs Form 10-K, the Minnesota Center for Environmental Advocacy had since filed a motion with the Court of Appeals to intervene in Northshore s appeal of the denial of an administrative amendment to Northshore s Title V operating permit.

On May 20, 2008, the Minnesota Court of Appeals issued a ruling on Northshore s appeal and

held that the MPCA did not err in concluding that Northshore proceeded under the wrong permit modification procedures when it applied to amend its permit to eliminate the control city standard from its Title V operating permit. The Minnesota Court of Appeals ruled that Northshore s administrative amendment application should have been dealt with through the major permit amendment process rather than through the administrative permit amendment process, which is used to address insignificant amendments. In its Form 10-Q filed October 31, 2008, Cliffs reported that on August 28, 2008 it filed a major permit amendment to remove the control city requirement from its permit and that this permit amendment is currently pending.

Additionally, in its Form 10-Q filed October 31, 2008, Cliffs reported that as part of Northshore s permitting of the restart of Furnace 5, Northshore was required to certify compliance with air emission standards within 180 days of operation. In its Form 10-Q, Cliffs reported that during the scheduled compliance testing for Furnace 5, Northshore experienced abnormal operating difficulties and was thereby unable to certify compliance. As reported above, Furnace 5 has been idled due to changes in market demand. Cliffs further reported that Northshore will take appropriate steps to establish compliance with the MPCA, will perform retesting as soon as Furnace 5 returns to normal operating conditions and anticipates meeting the required limits.

The Trustees are unable to predict what impact the administrative proceedings discussed above will have on Northshore s compliance with its Title V operating permit or on future royalties payable to the Trust.

Important Factors Affecting Mesabi Trust

The Agreement of Trust specifically prohibits the Trustees from entering into or engaging in any business. This prohibition seemingly applies even to business activities the Trustees deem necessary or proper for the preservation and protection of the Trust Estate (as such term is defined below). 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 Mesabi Trust s Unitholders after the payment of, or provision for, such expenses and liabilities, and protecting and conserving the assets held. Consequently, the income of Mesabi Trust is highly dependent upon the activities and operations of Northshore, and the terms and conditions of the leases and assignments of leases between Mesabi Trust and Northshore.

Neither Mesabi Trust nor the Trustees have any control over the operations and activities of Northshore, except within the framework of the Amended Assignment Agreements. Cliffs alone controls (i) historical operating data, including iron ore production volumes, marketing of iron ore products, operating and capital expenditures as they relate to Northshore, environmental and other liabilities and the effects of regulatory changes; (ii) plans for Northshore s future operating and capital expenditures; (iii) geological data relating to ore reserves (iv) projected production of iron ore products; (v) contracts between Cliffs and Northshore with their customers; and (vi) the decision to mine off Mesabi Trust and/or state lands, based on Cliffs current mining and engineering plan. The Trustees do not exert any influence over mining operational decisions at Northshore, nor do the Trustees provide any input regarding the ore reserve estimate at Northshore as reported by Cliffs. While the Trustees request material information for use in periodic reports as part of their evaluation of Mesabi Trust s disclosure controls and procedures, the Trustees do not control this information and they rely on the information in Cliffs periodic and current filings with the SEC to provide accurate and timely information in Mesabi Trust s reports filed with the SEC.

In accordance with the Agreement of Trust and the Amendment, the Trustees are entitled to, and in fact do rely, upon certain experts in good faith, including (i) the independent consultants with respect to

monthly production and shipment reports, which include figures on crude ore production and iron ore pellet shipments, and discussions concerning the condition and accuracy of the scales and plans regarding the development of Mesabi Trust s mining property; and (ii) the accounting firm they have contracted with for non-audit services, including reviews of financial data related to shipping and sales reports provided by Northshore and a review of the schedule of leasehold royalties payable to Mesabi Trust.

For a discussion of additional factors, including but not limited to those that could adversely affect Mesabi Trust s actual results and performance, see Risk Factors in Part I Item 1A of Mesabi Trust s Annual Report on Form 10-K for the year-ended January 31, 2008, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

Iron Ore Pricing and Contract Adjustments

During the course of its fiscal year some portion of the royalties paid to Mesabi Trust are based on estimated prices for iron ore products sold under term contracts between Cliffs and its subsidiaries and certain of their customers (the Cliffs Pellet Agreements). Mesabi Trust is not a party to any of the Cliffs Pellet Agreements. These prices are subject to interim and final pricing adjustments, which can be positive or negative, and which adjustments are dependent in part on a variety of price and inflation index factors, including but not limited to the international benchmark pellet price, hot band steel prices and various Producer Price Indexes. Although Northshore makes interim adjustments to the royalty payments on a quarterly basis, these price adjustments cannot be finalized until after the end of a contract year. This may result in significant and frequent variations in royalties received by Mesabi Trust (and in turn the resulting amount of funds 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.

Effects of Securities Regulation

The Trust is a publicly-traded trust listed on the New York Stock Exchange (NYSE) and is therefore subject to extensive regulation under, among others, the Securities Act of 1933, the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and the rules and regulations of the NYSE. Issuers failing to comply with such authorities risk serious consequences, including criminal as well as civil and administrative penalties. In most instances, these laws, rules and regulations do not specifically address their applicability to publicly-traded trusts such as Mesabi Trust. In particular, Sarbanes-Oxley mandated the adoption by the Securities and Exchange Commission (the SEC) and NYSE of certain rules and regulations that are impossible for the Trust to literally satisfy because of its nature as a pass-through trust. Pursuant to NYSE rules currently in effect, the Trust is exempt from many of the corporate governance requirements that apply to publicly traded corporations. The Trust does not have, nor does the Agreement of Trust provide for, a board of directors, an audit committee, a corporate governance committee or a compensation committee. The Trustees intend to closely monitor the SEC s and the NYSE s rulemaking activity and will attempt to comply with such rules and regulations where applicable.

In May 2008, the Trust established a website in response to the NYSE s interpretation of Rule 203.01 of the NYSE Listed Company Manual. The Trust s website is located at www.mesabi-trust.com.

Critical Accounting Policies

This Trustees Discussion and Analysis of Financial Condition and Results of Operations is based upon Mesabi Trust s financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Trustees to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The Trustees base their estimates and judgments on historical experience and on various other assumptions that the Trustees believe are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments may require adjustment.

Critical accounting policies are those that have meaningful impact on the reporting of Mesabi Trust s financial condition and results, and that require significant management judgment and estimates. The Trustees have determined that there are no critical accounting policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. The Trustees maintain disclosure controls and procedures designed to ensure that information required to be disclosed by Mesabi Trust in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and regulations of the Securities and Exchange Commission. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by Mesabi Trust is accumulated and communicated by Northshore and consultants to the Trustees as appropriate, to allow timely decisions regarding required disclosure.

As part of their evaluation of Mesabi Trust s disclosure controls and procedures, the Trustees rely on quarterly shipment and royalty calculations provided by Northshore. Because Northshore has declined to support this information with a written certification attesting to whether Northshore has established disclosure controls and procedures and internal controls sufficient to enable it to verify that the information furnished to the Trustees is accurate and complete, the Trustees also rely on (a) an annual certification from Northshore and Northshore s parent, Cliffs, certifying as to the accuracy of the royalty calculations, and (b) the related due diligence review performed by the Trust s external accountants. In addition, Mesabi Trust s consultants review the schedule of leasehold royalties payable and shipping and sales reports provided by Northshore against production and shipment reports prepared by the Eveleth Fee Office, Inc., an independent consultant to Mesabi Trust (Eveleth Fee Office). The Eveleth Fee Office gathers production and shipping information from Northshore and prepares monthly production and shipment reports for the Trustees. Furthermore, as part of its engagement by Mesabi Trust, the Eveleth Fee Office also attends Northshore s calibration and testing of its crude ore scales and boat loader scales which are conducted on a periodic basis.

As of the end of the period covered by this report, the Trustees carried out an evaluation of Mesabi Trust s disclosure controls and procedures. The Trustees have concluded that such disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting. To the knowledge of the Trustees, there has been no change in Mesabi Trust s internal control over financial reporting that occurred during Mesabi Trust s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, Mesabi Trust s internal control over financial reporting. The Trustees note for purposes of clarification that they have no authority over, and make no statement concerning, the internal control over financial reporting of Northshore or Cliffs.

PART II - OTHER INFORMATION

Item 1. **Legal Proceedings.**

None.

Item 1A. **Risk Factors**

The information presented below amends, updates and should be read in conjunction with the risk factors and information disclosed here and in the Trust s Annual Report on Form 10-K for the fiscal year ended January 31, 2008. The risk factors disclosed here and in the Trust s Annual Report on Form 10-K for the fiscal year ended January 31, 2008, in addition to the other information set forth in this quarterly report, could have a material adverse effect on the royalties received by Mesabi Trust. You should carefully consider such risks in addition to other information contained in this report before engaging in any transaction involving units of beneficial interest of Mesabi Trust. Additional risks and uncertainties not currently known to the Trust or that have been deemed to be immaterial as of the filing of this Quarterly Report could also materially adversely affect the Trust s results of operations.

The Trust s risk factors are hereby updated as follows:

The global economic climate and the current disruption in the financial and credit markets have created uncertainty and could adversely affect the royalties payable to the Trust.

The volatile global economic climate and the current global financial and credit crisis could have a material adverse effect on the royalties payable to the Trust. Cliffs has announced production curtailments and workforce reductions at Northshore and the potential for further workforce reductions at other mines comprising Cliffs North American Iron Ore operations. According to Cliffs, some of its customers have announced curtailments of production, which could adversely affect the demand for iron ore and therefore shipments from lands owned by the Trust. Continuation or worsening of the current economic conditions, a prolonged global, national or regional economic recession or other events could produce major changes in demand patterns and may have a material adverse effect on Cliffs sales of iron ore products. Moreover, such conditions could impact the international benchmark pellet price, hot band steel prices and various Producer Price Indexes all of which impact the royalties payable to the Trust. The Trustees are not able to predict the impact the volatile global economic climate and the current global financial and credit crisis will have on future royalties payable to the Trust.

Risk factors affecting Cliffs and the operations of Northshore could have a material adverse effect on the income of the Trust.

Because substantially all of the Trust s revenue is derived from iron ore products shipped by Northshore from Silver Bay, Northshore s iron ore pellet processing and shipping activities directly impact the Trust s revenues in each quarter and for each year. A number of factors affect Cliffs operations, including Northshore s production and shipment volume. These factors which are described in Cliffs Form 10-K filed February 29, 2008, as updated by Cliffs Form 10-Q filed October 31, 2008 include, among others, the global economic climate and financial market conditions, economic conditions in the iron ore industry, extensive governmental regulation relating to environmental matters and the costs and risks related thereto, availability of substitute materials, pricing by domestic and international competitors, long-term customer contracts or arrangements by Northshore or its competitors, price adjustment provisions in Cliffs North American term supply agreements (which take into account various price indexes), availability of ore boats, production at Northshore s mining operations, natural disasters, shipping conditions in the Great Lakes and production at Northshore s pelletizing/processing

facility. Specifically, if any portion of Northshore s pelletizing lines becomes idle for any reason, production, shipments and, consequently, the royalties paid to the Trust could be adversely affected.

Item 2. **Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

Item 3. **Defaults Upon Senior Securities.**

None.

Item 4. **Submission of Matters to a Vote of Security Holders.**

None.

Item 5. **Other Information.**

None.

Item 6. **Exhibits.**

31 Certification of Corporate Trustee of Mesabi Trust pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Corporate Trustee of Mesabi Trust pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 Report of Wipfli LLP, dated December 3, 2008 regarding its review of the unaudited interim financial statements of Mesabi Trust for its quarter ended October 31, 2008.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MESABI TRUST
(Registrant)

By: DEUTSCHE BANK TRUST COMPANY AMERICAS
Corporate Trustee
Principal Administrative Officer and duly authorized signatory:*

By: DEUTSCHE BANK NATIONAL TRUST COMPANY

Date: December 5, 2008

By: /s/ Kenneth Ring
Name: Kenneth R. Ring
Title: Vice President
Deutsche Bank National Trust Company
For Deutsche Bank Trust Company Americas

* There are no principal executive officers or principal financial officers of the registrant.