
Harbinger urges Cleveland shareholders to support share acquisition proposal

Tuesday, 16 Sep, 2008

Harbinger Capital Partners Funds, the largest shareholder of Cleveland Cliffs Inc, has sent the following letter to shareholders of Cleveland Cliffs

Harbinger Capital, in the letter to Cleveland shareholders, wrote that "Harbinger Capital Partners is asking for your support to increase our stake in Cleveland Cliffs and to establish a strong, independent voice to advocate the cause of maximizing shareholder value. On October 3, 2008, shareholders will be asked to vote to authorize our acquisition of up to one third of the voting shares of Cleveland Cliffs. We face a challenging task, both to navigate the demands of Ohio law and to help shareholders overcome the burdensome voting procedures imposed by the company. We need your help to ensure that the company acts in your and our mutual interests."

It said that "Why does Harbinger want to increase its stake in Cleveland Cliffs? We believe Cleveland Cliffs is a company with tremendous intrinsic value but are gravely concerned by the company's decision to acquire Alpha Natural Resources Inc. We believe that this radical, transformative transaction represents an unacceptable risk for shareholders and that the historic performance and strategic position of the company should offer more favorable opportunities to maximize shareholder value. By building our stake, we aim to provide a clear and potent voice advocating for maximum value creation for the benefit of all shareholders."

It added that "Additionally, we are concerned that the Alpha deal will not create meaningful wealth for Cleveland Cliffs shareholders. As disclosed in the company's preliminary proxy statement prospectus filed with the Securities & Exchange Commission on August 12th 2008, JP Morgan, the company's financial advisor, estimated the value creation per share to Cleveland Cliffs shareholders in the Alpha transaction at only USD 1.85, assuming constant discount rates, or less than 1.66% of the company's share price at the time of announcement. The company's proxy statement further discloses that Citigroup as financial advisor to Alpha calculated pro forma Cleveland-Cliffs earnings per share resulting from the transaction under various scenarios. Their results indicate pro forma EPS dilution between negative 14% to 19% and negative 13% to 26% for 2009 and 2010, respectively. Based on our own internal analysis of publicly available information, Harbinger believes that, even with the full \$200 million of synergies estimated by management, the pro forma EPS results would remain dilutive for two years."

Furthermore, Harbinger Capital acknowledges in its own proxy statement that, because Harbinger has already acquired more than 10 percent of the company's voting shares without board approval, Harbinger is prohibited from engaging in certain transactions with Cleveland Cliffs, such as mergers, dispositions and sales of assets, for a period of three years. In light of these restrictions, we believe our most promising route to realizing the potential of our own investment is to ensure that the company pursues those strategic alternatives that maximize value for all shareholders.

For more news visit at www.steelguru.com