

ROYAL GOLD INC  
Form 10-Q  
May 01, 2008

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

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended March 31, 2008**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-13357**

**Royal Gold, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware  
(State or Other Jurisdiction of  
Incorporation)**

**84-0835164  
(I.R.S. Employer  
Identification No.)**

**1660 Wynkoop Street, Suite 1000  
Denver, Colorado  
(Address of Principal Executive Office)**

**80202  
(Zip Code)**

**Registrant's telephone number, including area code (303) 573-1660**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date: 33,921,495 shares of the Company's common stock, par value \$0.01 per share, were outstanding as of April 30, 2008.



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**ROYAL GOLD, INC.**  
Consolidated Balance Sheets  
(In thousands except share data)

	March 31, 2008 (Unaudited)	June 30, 2007
Current assets		
Cash and equivalents	\$ 183,823	\$ 82,842
Royalty receivables	15,677	12,470
Deferred tax assets	83	154
Prepaid expenses and other	329	217
 Total current assets	 199,912	 95,683
 Royalty interests in mineral properties, net (Note 4)	 306,277	 215,839
Restricted cash – compensating balance	15,750	15,750
Inventory – restricted (Note 11)	10,904	10,612
Note receivable – Battle Mountain Gold Exploration (Note 2)		14,494
Other assets	7,445	4,271
 Total assets	 \$ 540,288	 \$ 356,649
 Current liabilities		
Accounts payable	\$ 4,738	\$ 2,342
Income taxes payable	187	5
Dividends payable	2,384	1,869
Other	1,649	472
 Total current liabilities	 8,958	 4,688
 Net deferred tax liabilities	 25,017	 5,911
Note payable	15,750	15,750
Other long-term liabilities	488	98
 Total liabilities	 50,213	 26,447
 Commitments and contingencies (Note 10)		
Minority interest in subsidiary (Note 11)	11,119	11,121
Stockholders' equity		
Common stock, \$0.01 par value, authorized 100,000,000 shares; and issued 34,347,705 and 28,892,980 shares, respectively	344	289
Additional paid-in capital	468,982	310,439
Accumulated other comprehensive income	176	458
Accumulated earnings	16,067	8,992

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Less treasury stock, at cost (426,210 and 229,224 shares, respectively)	(6,613)	(1,097)
Total stockholders' equity	478,956	319,081
Total liabilities and stockholders' equity	\$ 540,288	\$ 356,649

**Table of Contents****ROYAL GOLD, INC.**Consolidated Statements of Operations and Comprehensive Income  
(Unaudited, in thousands except share data)

	For The Three Months Ended	
	March 31, 2008	March 31, 2007
Royalty revenues	\$ 19,516	\$ 11,209
Costs and expenses		
Costs of operations (exclusive of depreciation, depletion and amortization shown separately below)	1,046	712
General and administrative	1,981	1,565
Exploration and business development	817	679
Depreciation, depletion and amortization	5,925	2,562
Total costs and expenses	9,769	5,518
Operating income	9,747	5,691
Interest and other income	1,715	457
Interest and other expense	(330)	(670)
Income before income taxes	11,132	5,478
Current tax expense	(3,814)	(1,891)
Deferred tax benefit	242	205
Minority interest in income of consolidated subsidiary	(140)	(353)
Net income	\$ 7,420	\$ 3,439
Adjustments to comprehensive income		
Unrealized loss in market value of available for sale securities, net of tax	(109)	(83)
Comprehensive income	\$ 7,311	\$ 3,356
Net income	\$ 7,420	\$ 3,439
Preferred stock dividends and deemed dividend	(3,584)	
Net income available to common stockholders	\$ 3,836	\$ 3,439
Basic earnings per share	\$ 0.12	\$ 0.14

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Basic weighted average shares outstanding	30,932,084	24,042,235
Diluted earnings per share	\$ 0.12	\$ 0.14
Diluted weighted average shares outstanding	31,213,663	24,318,738

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**Table of Contents****ROYAL GOLD, INC.**Consolidated Statements of Operations and Comprehensive Income  
(Unaudited, in thousands except share data)

	For The Nine Months Ended	
	March 31, 2008	March 31, 2007
Royalty revenues	\$ 47,729	\$ 33,993
Costs and expenses		
Costs of operations (exclusive of depreciation, depletion and amortization shown separately below)	2,838	2,280
General and administrative	5,509	4,231
Exploration and business development	3,298	1,570
Depreciation, depletion, and amortization	11,933	5,751
Total costs and expenses	23,578	13,832
Operating income	24,151	20,161
Interest and other income	5,667	2,383
Interest and other expense	(1,492)	(802)
Income before income taxes	28,326	21,742
Current tax expense	(9,989)	(7,811)
Deferred tax benefit	1,143	1,167
Minority interest in income of consolidated subsidiary	(682)	(1,064)
Loss from equity investment	(550)	
Net income	\$ 18,248	\$ 14,034
Adjustments to comprehensive income		
Unrealized loss in market value of available for sale securities, net of tax	(282)	(194)
Comprehensive income	\$ 17,966	\$ 13,840
Net income	\$ 18,248	\$ 14,034
Preferred stock dividends and deemed dividend	(4,788)	
Net income available to common stockholders	\$ 13,460	\$ 14,034
Basic earnings per share	\$ 0.45	\$ 0.59

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Basic weighted average shares outstanding	29,808,962	23,653,946
Diluted earnings per share	\$ 0.45	\$ 0.59
Diluted weighted average shares outstanding	30,134,888	23,956,549

**Table of Contents****ROYAL GOLD, INC.**

Consolidated Statement of Stockholders' Equity for the Nine Months Ended March 31, 2008  
(Unaudited, in thousands except share data)

	Preferred Shares		Common Shares		Paid-in Capital	Accumulated Other Comprehensive Income		Treasury Stock	
	Shares	Amount	Shares	Amount		Capital	Income	Earnings	Shares
June 30, 2007		\$	28,892,980	\$ 289	\$ 310,439	\$ 458	\$ 8,992	229,224	\$(1,097)
Preferred stock for:									
Mandatory Convertible offering (Note 7)	1,150,000	115,000				(3,902)			
Common stock for:									
of 7.25% Mandatory Preferred Stock (Note 7)	(1,150,000)	(115,000)	3,977,683	40	116,946				
to maintain acquisition (Note 2)			1,144,025	11	35,832				
issuance costs (April 2007)						(29)			
Stock options			96,750	1	701				
Restricted stock			19,625	1					
of Corporation and Repadre Corporation (Note 7)			216,642	2	6,343				
of common stock (Note 7)								196,986	(5,516)
of stock-based compensation						507			
of non-cash compensation expense						2,145			
of stock-based compensation									
and comprehensive loss for the nine months ended							(282)	18,248	
of stock deemed divided upon conversion of Mandatory Convertible								(1,986)	
of stock dividends declared								(2,802)	
of stock dividends declared								(6,385)	
March 31, 2008		\$	34,347,705	\$ 344	\$ 468,982	\$ 176	\$ 16,067	426,210	\$(6,613)

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**ROYAL GOLD, INC.**  
Consolidated Statements of Cash Flows  
(Unaudited, in thousands)

	For The Nine Months Ended	
	March 31, 2008	March 31, 2007
Cash flows from operating activities		
Net income	\$ 18,248	\$ 14,034
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	11,933	5,751
Deferred tax benefit	(1,143)	(1,167)
Non-cash employee stock compensation expense	2,145	1,725
Loss on available for sale securities	49	
Interest income accrued for Battle Mountain note receivable	(713)	
Tax benefit of stock-based compensation exercises	(507)	(97)
Changes in assets and liabilities:		
Royalty receivables	(2,479)	(2,261)
Prepaid expenses and other assets	(2,199)	(270)
Accounts payable	3,010	2,646
Income taxes payable (receivable)	541	(1,001)
Accrued liabilities and other current liabilities	(151)	(198)
Other long-term liabilities	(20)	(20)
Net cash provided by operating activities	\$ 28,714	\$ 19,142
Cash flows from investing activities		
Capital expenditures for property and equipment	\$ (12)	\$ (268)
Acquisition of royalty interests in mineral properties	(15,939)	(119,736)
Note Receivable Battle Mountain Gold Exploration		(13,927)
Deferred acquisition costs	(63)	(375)
Restricted cash compensating balance		(15,750)
Purchase of available for sale securities		(81)
Battle Mountain acquisition, net of cash acquired of \$1,398,181	(2,933)	
Net cash used in investing activities	\$ (18,947)	\$ (150,137)
Cash flows from financing activities:		
Tax benefit of stock-based compensation exercises	\$ 507	\$ 97
Debt issuance costs	(27)	(461)
Revolving credit facility payable		60,000
Note payable		15,750

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Common stock dividends	(5,869)	(4,142)
Preferred stock dividends	(2,802)	
Gold loan payoff Battle Mountain	(6,852)	
Net proceeds from issuance of common stock	675	470
Net proceeds from issuance of preferred stock	111,098	
Stock repurchase program	(5,516)	
Net cash provided by financing activities	\$ 91,214	\$ 71,714
Net increase (decrease) in cash and equivalents	100,981	(59,281)
Cash and equivalents at beginning of period	82,842	78,449
Cash and equivalents at end of period	\$ 183,823	\$ 19,168
Supplemental cash flow information:		
Non-cash financing activities:		
Acquisition of royalty interest in mineral property (with common stock)	\$	\$ 18,495
Conversion of preferred stock to common stock	\$ 116,946	\$
Battle Mountain acquisition (with common stock)	\$ 35,832	\$

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**ROYAL GOLD, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited, in thousands except share data, per ounce and per pound amounts)**

**1. OPERATIONS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**Operations**

Royal Gold, Inc. ( Royal Gold , the Company , we , us , or our ), together with its subsidiaries, is engaged in the business of acquiring and managing precious metals royalties. Royalties are passive (non-operating) interests in mining projects that provide the right to revenue or production from the project after deducting specified costs, if any.

We seek to acquire existing royalties or to finance projects that are in production or near production in exchange for royalty interests. We are engaged in a continual review of opportunities to acquire existing royalties, to create new royalties through the financing of mine development or exploration, or to acquire companies that hold royalties. We currently, and generally at any time, have acquisition opportunities in various stages of active review, including, for example, our engagement of consultants and advisors to analyze particular opportunities, analysis of technical, financial and other confidential information, submission of indications of interest, participation in preliminary discussions and involvement as a bidder in competitive auctions. We also fund exploration on properties thought to contain precious metals and seek to obtain royalties and other carried ownership interests in such properties through the subsequent transfer of operating interests to other mining companies. Substantially all of our revenues are and will be expected to be derived from royalty interests. We do not conduct mining operations at this time.

**Summary of Significant Accounting Policies**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments which are of a normal recurring nature considered necessary for a fair statement have been included in this Form 10-Q. Operating results for the nine months ended March 31, 2008, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2008. Certain prior period amounts have been reclassified to conform to the current period presentation. These interim unaudited financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

**Recently Issued Accounting Pronouncements**

On July 13, 2006, Financial Accounting Standards Board ( FASB ) Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*, was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted FIN 48 on July 1, 2007. Refer to Note 10 for a discussion regarding the effect of adopting FIN 48. In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement No. 157 provides guidance for using fair value to measure assets and liabilities. Statement No. 157 applies whenever other accounting standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. Under Statement No. 157, fair value

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**ROYAL GOLD, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited, in thousands except share data, per ounce and per pound amounts)**

refers to the price that would be received to sell an asset or paid to transfer a liability between participants in the market in which the reporting entity transacts. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. The provisions of Statement No. 157 are effective for our fiscal year beginning July 1, 2008, and interim periods within the fiscal year. The Company is evaluating the impact, if any, the adoption of Statement No. 157 could have on its financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows entities to choose to measure many financial instruments and certain other items at fair value. The provisions of Statement No. 159 are effective for our fiscal year beginning July 1, 2008, and interim periods within the fiscal year. The Company is evaluating the impact, if any, the adoption of Statement No. 159 could have on its financial statements.

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations*, ( SFAS 141R ), which significantly changes the ways companies account for business combinations and will generally require more assets acquired and liabilities assumed to be measured at their acquisition date fair value. Under SFAS 141R, legal fees and other transaction-related costs are expensed as incurred and are no longer included in goodwill as a cost of acquiring the business. SFAS 141R also requires, among other things, acquirers to estimate the acquisition date fair value of any contingent consideration and to recognize any subsequent changes in the fair value of contingent consideration in earnings. In addition, restructuring costs the acquirer expected, but was not obligated to incur, will be recognized separately from the business acquisition. SFAS 141R is effective for the Company's fiscal year beginning July 1, 2009, and is to be applied prospectively. The Company is evaluatin