

ROYAL GOLD INC
Form 10-Q
February 09, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

**Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934 for the quarterly period ended December 31, 2006
Commission File Number 001-13357**

(a Delaware corporation)

Royal Gold, Inc.

1660 Wynkoop Street, Suite 1000

Denver, Colorado 80202-1132

(303) 573-1660

(Name, State of Incorporation, Address and Telephone Number)

I.R.S. Employer Identification Number **84-0835164**

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, 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 Accelerated filer Non-accelerated filer

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: 23,614,916 shares of the Company's Common Stock, par value \$0.01 per share, were outstanding as of January 31, 2007.

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ROYAL GOLD, INC.
Consolidated Balance Sheets

	December 31, 2006 (Unaudited)	June 30, 2006
Current assets		
Cash and equivalents	\$ 70,936,374	\$ 78,449,383
Royalty receivables	8,620,951	5,962,053
Deferred tax assets	106,551	131,621
Prepaid expenses and other	484,174	232,839
Total current assets	80,148,050	84,775,896
Royalty interests in mineral properties, net (Note 3)	99,701,698	84,589,569
Available for sale securities (Note 4)	1,884,699	1,988,443
Deferred tax assets	1,016,025	495,018
Other assets	641,211	410,895
Total assets	\$ 183,391,683	\$ 172,259,821
Current liabilities		
Accounts payable	\$ 2,790,797	\$ 1,075,644
Income taxes payable	567,219	334,767
Dividend payable	1,541,430	1,300,623
Accrued compensation	689,000	375,000
Other	102,104	237,482
Total current liabilities	5,690,550	3,323,516
Deferred tax liabilities	6,639,589	7,178,907
Other long-term liabilities	84,549	97,749
Total Liabilities	12,414,688	10,600,172
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock, \$.01 par value, authorized 40,000,000 shares; and issued 23,844,140 and 23,816,640 shares, respectively	238,441	238,165
Additional paid-in capital	168,133,514	166,459,671
Accumulated other comprehensive income	387,025	498,462
Accumulated earnings (deficit)	3,314,887	(4,439,777)
Treasury stock, at cost (229,224 shares)	(1,096,872)	(1,096,872)
Total stockholders' equity	170,976,995	161,659,649
Total liabilities and stockholders' equity	\$ 183,391,683	\$ 172,259,821

The accompanying notes are an integral part of these consolidated financial statements

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ROYAL GOLD, INC.
Consolidated Statements of Operations and Comprehensive Income
(Unaudited)

	For The Three Months Ended	
	December 31, 2006	December 31, 2005
Royalty revenues	\$ 12,279,677	\$ 7,575,307
Costs and expenses		
Costs of operations	872,070	617,509
General and administrative	1,532,265	1,647,996
Exploration and business development	472,630	1,026,540
Depreciation, depletion and amortization	2,105,475	1,030,444
Total costs and expenses	4,982,440	4,322,489
Operating income	7,297,237	3,252,818
Interest and other income	954,369	1,016,562
Interest and other expense	(65,381)	(33,773)
Income before income taxes	8,186,225	4,235,607
Current tax expense	(3,269,129)	(1,591,236)
Deferred tax benefit	718,556	262,924
Net income	\$ 5,635,652	\$ 2,907,295
Adjustments to comprehensive income		
Unrealized change in market value of available for sale securities, net of tax	(189,182)	139,197
Comprehensive income	\$ 5,446,470	\$ 3,046,492
Basic earnings per share	\$ 0.24	\$ 0.12
Basic weighted average shares outstanding	23,604,576	23,276,477
Diluted earnings per share	\$ 0.24	\$ 0.12
Diluted weighted average shares outstanding	23,854,744	23,564,037

The accompanying notes are an integral part of these consolidated financial statements

ROYAL GOLD, INC.
Consolidated Statements of Operations and Comprehensive Income
(Unaudited)

	For The Six Months Ended	
	December 31, 2006	December 31, 2005
Royalty revenues	\$ 22,025,470	\$ 14,402,927
Costs and expenses		
Costs of operations	1,530,587	1,107,207
General and administrative	2,665,921	2,607,504
Exploration and business development	891,171	1,461,250
Depreciation, depletion, and amortization	3,177,691	1,928,469
Total costs and expenses	8,265,370	7,104,430
Operating income	13,760,100	7,298,497
Interest and other income	1,925,555	1,453,656
Interest and other expense	(131,695)	(54,780)
Income before income taxes	15,553,960	8,697,373
Current tax expense	(5,920,073)	(3,354,727)
Deferred tax benefit	961,902	622,080
Net income	\$ 10,595,789	\$ 5,964,726
Adjustments to comprehensive income		
Unrealized change in market value of available for sale securities, net of tax	(111,437)	225,154
Comprehensive income	\$ 10,484,352	\$ 6,189,880
Basic earnings per share	\$ 0.45	\$ 0.27
Basic weighted average shares outstanding	23,590,292	22,201,543
Diluted earnings per share	\$ 0.44	\$ 0.27
Diluted weighted average shares outstanding	23,819,540	22,452,460

The accompanying notes are an integral part of these consolidated financial statements

ROYAL GOLD, INC.Consolidated Statement of Stockholders Equity for the Six Months Ended December 31, 2006
(Unaudited)

	Common Shares		Additional	Accumulated	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-In Capital	Other Comprehensive Income	(Deficit) Earnings	Shares	Amount	Stockholders Equity
Balance at June 30, 2006	23,816,640	\$ 238,165	\$ 166,459,671	\$ 498,462	\$ (4,439,777)	229,224	\$ (1,096,872)	\$ 161,659,649
Issuance of common stock for:								
Exercise of stock options	20,000	201	282,300					282,501
Vesting of restricted stock	7,500	75	(75)					
Tax benefit of stock-based compensation exercises			69,097					69,097
Recognition of non-cash compensation expense for stock-based compensation (Note 5)			1,322,521					1,322,521
Net income and comprehensive income for the six months ended				(111,437)	10,595,789			10,484,352
Dividends declared					(2,841,125)			(2,841,125)
Balance at December 31, 2006	23,844,140	\$ 238,441	\$ 168,133,514	\$ 387,025	\$ 3,314,887	229,224	\$ (1,096,872)	\$ 170,976,995

The accompanying notes are an integral part of these consolidated financial statements

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

	For The Six Months Ended	
	December 31, 2006	December 31, 2005
Cash flows from operating activities:		
Net income	\$ 10,595,789	\$ 5,964,726
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	3,177,691	1,928,469
Deferred tax benefit	(961,902)	(622,080)
Non-cash employee stock option compensation expense	1,322,521	1,312,826
Tax benefit of stock-based compensation exercises	(69,097)	(502,404)
Changes in assets and liabilities:		
Royalty receivables	(2,658,898)	209,968
Prepaid expenses and other assets	(491,367)	(3,569,200)
Accounts payable	1,715,153	2,235,451
Federal income taxes payable (receivable)	301,549	(287,485)
Accrued liabilities and other current liabilities	178,622	530,305
Other long-term liabilities	(13,200)	(13,200)
Net cash provided by operating activities	13,096,861	7,187,376
Cash flows from investing activities:		
Capital expenditures for property and equipment	(44,722)	(5,066)
Acquisition of royalty interests in mineral properties	(18,235,383)	(25,221,805)
Advance to High River Gold		(6,687,550)
Purchase of available for sale securities	(81,045)	(204,715)
Net cash used in investing activities	(18,361,150)	(32,119,136)
Cash flows from financing activities:		
Tax benefit of stock-based compensation exercises	69,097	502,404
Dividends paid	(2,600,318)	(2,213,541)
Net proceeds from issuance of common stock	282,501	57,675,601
Net cash (used in) provided by financing activities	(2,248,720)	55,964,464
Net (decrease) increase in cash and equivalents	(7,513,009)	31,032,704

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Cash and equivalents at beginning of period	78,449,383	48,840,371
Cash and equivalents at end of period	\$ 70,936,374	\$ 79,873,075
Supplemental cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 5,618,524	\$ 3,382,212

The accompanying notes are an integral part of these consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 receive revenue 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 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 six months ended December 31, 2006, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. 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, 2006.

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 positions 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 provisions of FIN 48 are effective for our fiscal year beginning July 1, 2007. The Company is evaluating the impact, if any, the adoption of FIN 48 could have on our financial statements.

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 refers to the price that would be received to sell an asset or paid to transfer a liability between market 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 our financial statements.

Also in September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108), *Financial Statements Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 provides that once a current year misstatement has been quantified, the guidance in SAB No. 99, *Financial Statements Materiality*, should be applied to determine whether the misstatement is material and should result in an adjustment to the financial statements. We will apply the provisions of SAB 108 with the preparation of our annual financial statements for the fiscal year ending June 30, 2007. The Company is currently evaluating, but does not expect the application of the provisions of SAB 108 to have a material impact, if any, on our financial statements for the fiscal year ending June 30, 2007.

2. ROYALTY ACQUISITION

Gold Hill

On December 8, 2006, Royal Gold paid \$3.3 million to Nevada Star Resource Corp. in exchange for a net smelter return (NSR) sliding-scale royalty and certain unpatented mining claims on the Gold Hill deposit. The NSR sliding-scale royalty on the Gold Hill deposit will pay 2.0% when the price of gold is above \$350 per ounce and 1.0% when the price of gold falls to \$350 per ounce or below. The royalty is also subject to a minimum royalty payment of \$100,000 per year. The Gold Hill deposit, located just north of the Round Mountain gold mine in Nye County, Nevada, is controlled by Round Mountain Gold Corporation, a joint venture between Kinross Gold, the operator, and Barrick Gold Corporation (Barrick). Production on the Gold Hill deposit is expected to commence once permitting is completed and equipment from the Round Mountain pit becomes available.

The Gold Hill transaction was accounted for as a purchase of assets. As such, the \$3.3 million acquisition cost, plus approximately \$15,000 of acquisition costs, is recorded as a component of *Royalty Interests in Mineral Properties*, as a development stage royalty, on the consolidated balance sheets of Royal Gold.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**3. ROYALTY INTERESTS IN MINERAL PROPERTIES**

The following table summarizes the net book value of each of our royalty interests in mineral properties as of December 31, 2006 and June 30, 2006.

As of December 31, 2006:

	Gross	Accumulated Depletion & Amortization	Net
Production stage royalty interests:			
Pipeline Mining Complex			
GSR1	\$	\$	\$
GSR2			
GSR3	8,105,020	(6,162,574)	1,942,446
NVR1	2,135,107	(1,567,630)	567,477
Bald Mountain	1,978,547	(1,829,286)	149,261
SJ Claims	20,788,444	(6,042,760)	14,745,684
Robinson mine	17,824,776	(956,040)	16,868,736
Mulatos mine	7,441,779	(377,489)	7,064,290
Troy mine GSR royalty	7,250,000	(1,517,015)	5,732,985
Troy mine Perpetual royalty	250,000		250,000
Leeville South	1,775,809	(1,775,809)	
Leeville North	14,240,418	(864,649)	13,375,769
Martha	172,810	(172,810)	
	81,962,710	(21,266,062)	60,696,648
Development stage royalty interests:			
Taparko Project			
TB-GSR1	24,909,181		24,909,181
TB-GSR2	7,280,226		7,280,226
TB-GSR3	1,026,933		1,026,933
Gold Hill	3,340,384		3,340,384
	36,556,724		36,556,724
Exploration stage royalty interests:			
Taparko Project			
TB-GSR3	207,938		207,938
TB-MR1	135,613		135,613
Leeville North	2,305,845	(271,187)	2,034,658
Buckhorn South	70,117		70,117
	2,719,513	(271,187)	2,448,326
Total royalty interests in mineral properties	\$ 121,238,947	\$ (21,537,249)	\$ 99,701,698

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As of June 30, 2006:

	Gross	Accumulated Depletion & Amortization	Net
Production stage royalty interests:			