

ROYAL GOLD INC
Form 8-K
February 05, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

February 5, 2004
Date of Report (Date of earliest event reported)

ROYAL GOLD, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

0-5664
(Commission
File Number)

84-0835164
(IRS Employer
Identification No.)

1660 Wynkoop Street, Suite 1000, Denver, CO
(Address of principal executive offices)

80202-1132
(Zip Code)

303-573-1660

(Registrant's telephone number, including area code)

Item 12. Results of Operations and Financial Condition

The following information is furnished pursuant to Item 9 "Regulation FD Disclosure" and Item 12 "Results of Operations and financial Condition."

On February 5, 2004, Royal Gold, Inc. announced a 63% increase increase in revenues for its second quarter of fiscal 2004. The information contained in the press release dated February 5, 2004, regarding the Company's second quarter results is incorporated herein by reference and is filed as Exhibit 99.1 hereto.

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SIGNATURES

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

Royal Gold, Inc.
(Registrant)

By: /s/ Karen Gross

Name: Karen Gross
Title: Vice President & Corporate Secretary

Dated: February 5, 2004

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INDEX TO EXHIBITS

| Exhibit No. | Description |
|-------------|--|
| 99.1 | Press Release dated February 5, 2004, " Royal Gold Reports 63% Increase In Second Quarter Revenues." |

FOR IMMEDIATE RELEASE:

FOR FURTHER INFORMATION CONTACT

:

Stanley Dempsey, Chairman & CEO

or

Karen Gross, Vice President & Corporate Secretary
(303) 573-1660

ROYAL GOLD REPORTS 63% INCREASE IN SECOND QUARTER REVENUES

- Revenues boosted by higher gold prices and step-up of sliding-scale royalty rate
- Earnings increase 85% from the prior year quarter
- Free cash flow (a non-GAAP financial measure) totals 73% of revenues

DENVER, COLORADO. FEBRUARY 5, 2004: ROYAL GOLD, INC. (NASDAQ:RGLD; TSE:RGL) today announced second quarter fiscal 2004 net income of \$2,277,465, or \$0.11 per basic share, on royalty revenue of \$5,083,461. These amounts compare to net income for the second quarter of fiscal 2003 of \$1,232,345, or \$0.06 per basic share, on royalty revenue of \$3,117,384.

Net income for the six-month period ended December 31, 2003, was \$3,620,577 or \$0.17 per basic share, on royalty revenue of \$9,264,946. This compares to net income of \$2,657,850, or \$0.14 per basic share for the six-month period ended December 31, 2002, on royalty revenue of \$6,483,556.

Included in the current quarter was a non-cash charge for a deferred tax expense of \$698,425, or \$0.03 per basic share. For the six-month period ended December 31, 2003, the non-cash charge for the deferred tax expense was \$1,164,653 or \$0.06 per basic share.

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Free cash flow for the second quarter was approximately \$3.7 million, or 73% of revenues. For the six-month period ended December 31, 2003, free cash flow was approximately \$6.4 million, or 70% of revenues. Free cash flow, a non-GAAP financial measure, is defined as operating income plus depreciation, depletion and amortization, non-cash charges and any impairment of mining assets (see, Schedule A-Reconciliation).

Financial highlights, as of the end of the quarter, include higher revenues largely due to an increased gold price resulting in a step-up of Royal Gold's sliding-scale royalty rate at the Pipeline Mining Complex from 3.4% to 4.0%; a cash balance of \$38.8 million; and a working capital surplus of approximately \$43.7 million yielding a current ratio of 17 to 1.

Stanley Dempsey, Chairman and CEO, said, "Royal Gold's revenues reflect the tremendous leverage provided by our sliding-scale royalty at the Pipeline Mining Complex. Due to higher gold prices, this royalty rate jumped two steps from the previous quarter. We are pleased with our robust financial position and our improved operating margin. Royal Gold has solid fundamentals and continues to generate strong cash flow."

ROYALTY PORTFOLIO REVIEW

Pipeline Mining Complex, Lander County, Nevada

The Company owns two sliding-scale gross smelter return royalties (GSR1 and GSR2), a fixed gross royalty (GSR3), and a net value return royalty (NVR1) on the Pipeline Mining Complex, in Lander County, Nevada. The GSR1 royalty covers the current mine footprint, and the GSR2 ("Super") royalty covers any reserves that are developed on the claim block lying outside the current mine footprint. The GSR2 royalty pays out at a rate that is 80% higher than that of GSR1, at all gold prices. The GSR3 royalty is a 0.71% fixed rate for the life of the mine. The 0.39% NVR1 covers production from the GAS Claims, an area of interest of approximately 4,000 acres including the South Pipeline deposit and Crossroads area, but not including the Pipeline pit. The NVR1 is calculated by deducting processing-related costs, but is not burdened by mining costs.

The Pipeline Mining Complex is owned by the Cortez Joint Venture, a joint venture between Placer Cortez Inc. (60%), a subsidiary of Placer Dome Inc. and Kennecott Explorations (Australia) Ltd. (40%), a subsidiary of Rio Tinto.

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For the second quarter of Royal Gold's fiscal 2004, the Pipeline Mining Complex produced 217,866 ounces of gold, providing \$4,327,998 of royalty revenue to Royal Gold. This compares to 240,723 ounces of gold produced, providing \$2,769,653 of royalty revenue for the same quarter in fiscal 2003.

For the second quarter of fiscal 2004, the average gold price was \$391 per ounce and Royal Gold's GSR1 royalty rate was 4.0%, compared to an average gold price of \$322 per ounce and a GSR1 royalty rate of 2.60%, for the same period in fiscal 2003. Current production from the Pipeline Mining Complex is subject to GSR1, GSR3, and NVR1.

Leeville Project (Eureka County, Nevada)

Royal Gold holds a 1.8% net smelter return ("NSR") royalty covering a majority of the Leeville project ("Leeville"). Leeville is an underground mine, currently under development by Newmont Mining Corporation. Current production on the Leeville royalty land is derived from underground operations on a portion of the Carlin East deposit. During the quarter, the Carlin East deposit produced 29,150 ounces of gold that were subject to Royal Gold's royalty interest, providing \$205,783 in royalty revenue. This royalty was acquired in December 2002.

SJ Claims (Goldstrike Mine, Eureka County, Nevada)

Royal Gold holds a 0.9% NSR royalty on the SJ Claims covering a portion of the Betze-Post open pit at the Goldstrike mine. The Goldstrike mine is operated by Barrick Gold Corporation. During the quarter, gold production on the SJ Claims totaled 99,390 ounces, providing \$313,553 in royalty revenue. This royalty was acquired in December 2002.

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Bald Mountain, White Pine County, Nevada

Royal Gold holds a 0.9% NSR royalty on the SJ Claims covering a portion of the Betze-Post open pit at the Goldstrike mine. The Goldstrike mine is operated by Barrick Gold Corporation ("Barrick"). During the quarter, gold production on the SJ Claims totaled 140,203 ounces, providing \$414,839 in royalty revenue. This royalty was acquired in December 2002.

Martha Mine (Santa Cruz Province, Argentina)

The Company holds a 2% NSR on the Martha silver mine operated by Coeur d'Alene Mines Corporation. We received \$161,337 reflecting adjustments to royalty payments for production over the past six quarters.

Other Business Developments

Royal Gold has assigned some of its non-producing gold exploration properties in Nevada acquired through the purchase of High Desert Mineral Resources in December 2002. The Company has retained a 0.75% NSR royalty on precious metal production from each of the assigned properties.

The Company also terminated its interest in the Milos Gold project, on the island of Milos, Greece, which consisted of a right to a 25% interest in Geological Exploration and Development, S.A. All exploration expenses relating to our interest in the Milos Gold project have previously been expensed and therefore there is no effect on the Company's financial position or results of operations.

Corporate Profile

Royal Gold, Inc. is a precious metals royalty company engaging in the acquisition and management of precious metals royalty interests. Royal Gold is publicly traded on the Nasdaq Market System, under the symbol "RGLD," and on the Toronto Stock Exchange under the symbol "RGL." The Company's web page is located at **www.royalgold.com**.

NOTE: Royal Gold will conduct the second quarter conference call today at 12:00 noon Eastern (10:00 a.m. Mountain; 9:00 a.m. Pacific) time. The call will be simultaneously carried on the Company's web site at **www.royalgold.com** under the "Presentations" section. A replay on the web site will be available approximately two hours after the call ends. The conference call is also available by calling 800-603-2779 or 706-634-7230. Audio replays will be available about two hours after the call and until February 20 by dialing 800-642-1687 or 706-645-9291, access number 5166443.

Cautionary "Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995: With the exception of historical matters, the matters discussed in this press release are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projections or estimates contained herein. Such forward-looking statements include statements regarding ore shipments, cash flow and earnings, and the sliding-scale features of our royalty structure at the Pipeline Mining Complex. Factors that could cause actual results to differ

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materially include, among others, precious metals prices, decisions and activities of the operators of our royalty properties, unanticipated grade, geological, metallurgical, processing or other problems the operators of the mining properties may encounter, changes in project parameters as plans continue to be refined, results of current or planned exploration activities, economic and market conditions, and future financial needs or opportunities, and the impact of any future acquisitions, as well as other factors described elsewhere in this press release and in our Annual Report on Form 10-K, and other filings with the Securities and Exchange Commission. Most of these factors are beyond the Company's ability to predict or control. The Company disclaims any obligation to update any forward-looking statement made herein. Readers are cautioned not to put undue reliance on forward-looking statements.

The Company includes, in its reporting, information on free cash flow. Free cash flow is defined by operating income plus depreciation, depletion and amortization, non-cash charges, and any impairment of mining assets. While we believe free cash flow is a useful measure of the Company's performance, we also want to advise that this is not a measure recognized by general accepted accounting principles.

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Consolidated Balance Sheets (Unaudited)

| | ASSETS | |
|--|-----------------------------|-------------------------|
| | December 31, <u>2003</u> | June 30, <u>2003</u> |
| Current assets | | |
| Cash and equivalents | \$ 38,757,146 | \$ 33,485,543 |
| Royalty receivables | 4,312,124 | 3,125,437 |
| Current deferred tax asset | 3,090,703 | - |
| Prepaid expenses and other | <u>287,452</u> | <u>190,568</u> |
| Total current assets | <u>46,447,425</u> | <u>36,801,548</u> |
| Royalty interests in mineral properties, net | 41,897,803 | 43,559,743 |
| Available for sale securities | 561,741 | 457,584 |
| Deferred tax asset | 137,844 | 5,454,500 |
| Other assets | <u>121,193</u> | <u>85,297</u> |
| Total assets | \$ 89,166,006 ===== | \$ 86,358,672 ===== |

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Consolidated Balance Sheets Continued (Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

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| | <u>December 31,</u> <u>2003</u> | <u>June 30,</u> <u>2003</u> |
|--|------------------------------------|--------------------------------|
| Current liabilities | | |
| Accounts payable | \$ 1,329,532 | \$ 1,126,591 |
| Dividend payable | 779,377 | 1,032,735 |
| Accrued compensation | 366,500 | 200,000 |
| Other | <u>228,413</u> | <u>146,655</u> |
| Total current liabilities | 2,703,822 | 2,505,981 |
| Deferred tax liability | 7,685,402 | 8,746,702 |
| Other liabilities | 100,289 | 113,489 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Common stock, \$.01 par value, authorized 40,000,000 shares; and issued 21,012,583 and 20,883,914 shares, respectively | 210,125 | 208,838 |
| Additional paid-in capital | 101,348,938 | 100,612,048 |
| Accumulated other comprehensive income | 169,578 | 64,963 |
| Accumulated deficit | <u>(21,955,276)</u> | <u>(24,796,477)</u> |
| | <u>79,773,365</u> | <u>76,089,372</u> |
| Less treasury stock, at cost (229,224 shares) | <u>(1,096,872)</u> | <u>(1,096,872)</u> |
| Total stockholders' equity | <u>78,676,493</u> | <u>74,992,500</u> |
| Total liabilities and stockholders' equity | \$ 89,166,006 | \$ 86,358,672 |
| | ===== | ===== |

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Consolidated Statements of Operations and Comprehensive Income (Unaudited)

For The Three Months Ended

December 31,

December 31,

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| | <u>2003</u> | <u>2002</u> |
|---|-------------------|-------------------|
| Royalty revenues | \$ 5,083,461 | \$ 3,117,384 |
| Costs and expenses | | |
| Costs of operations | 347,183 | 315,126 |
| General and administrative | 779,009 | 537,641 |
| Exploration and business development | 250,635 | 150,747 |
| Depreciation and depletion | <u>786,039</u> | <u>515,109</u> |
| Total costs and expenses | <u>2,162,866</u> | <u>1,518,623</u> |
| Operating income | <u>2,920,595</u> | <u>1,598,761</u> |
| Interest and other income | 100,681 | 121,779 |
| Interest and other expense | <u>(29,001)</u> | <u>(37,837)</u> |
| Income before income taxes | 2,992,275 | 1,682,703 |
| Current tax expense | (16,385) | (33,654) |
| Deferred tax expense | <u>(698,425)</u> | <u>(416,704)</u> |
| Net income | \$ 2,277,465 | \$ 1,232,345 |
| | ===== | ===== |
| Adjustments to comprehensive income | | |
| Unrealized change in market value of available for sale securities | <u>212,324</u> | <u>55,977</u> |
| Comprehensive income | \$ 2,489,789 | \$ 1,288,322 |
| | ===== | ===== |
| Basic earnings per share | \$ 0.11 | \$ 0.06 |
| | ===== | ===== |
| Basic weighted average shares outstanding | 20,778,772 | 19,443,692 |
| Diluted earnings per share | \$ 0.11 | \$ 0.06 |
| | ===== | ===== |
| Diluted weighted average shares outstanding | 21,147,687 | 20,022,836 |

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Consolidated Statements of Operations and Comprehensive Income (Unaudited)

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| | <u>For The Six Months Ended</u> | |
|---|---------------------------------|-----------------------------|
| | December 31, <u>2003</u> | December 31, <u>2002</u> |
| Royalty revenues | \$ 9,264,946 | \$ 6,483,556 |
| Costs and expenses | | |
| Costs of operations | 674,458 | 582,113 |
| General and administrative | 1,364,695 | 981,826 |
| Exploration and business development | 780,948 | 243,768 |
| Depreciation and depletion | <u>1,700,931</u> | <u>1,148,946</u> |
| Total costs and expenses | <u>4,521,032</u> | <u>2,956,653</u> |
| Operating income | <u>4,743,914</u> | <u>3,526,903</u> |
| Interest and other income | 189,684 | 191,676 |
| Interest and other expense | <u>(58,278)</u> | <u>(69,817)</u> |
| Income before income taxes | 4,875,320 | 3,648,762 |
| Current tax expense | (90,090) | (72,975) |
| Deferred tax expense | <u>(1,164,653)</u> | <u>(917,937)</u> |
| Net income | \$ 3,620,577 | \$ 2,657,850 |
| | ===== | ===== |
| Adjustments to comprehensive income | | |
| Unrealized change in market value of available for sale securities | <u>104,615</u> | <u>(22,821)</u> |
| Comprehensive income | \$ 3,725,192 | \$ 2,635,029 |
| | ===== | ===== |
| Basic earnings per share | \$ 0.17 | \$ 0.14 |
| | ===== | ===== |
| Basic weighted average shares outstanding | 20,737,794 | 19,040,482 |
| Diluted earnings per share | \$ 0.17 | \$ 0.14 |
| | ===== | ===== |
| Diluted weighted average shares outstanding | 21,122,464 | 19,582,186 |

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Consolidated Statements of Cash Flows (Unaudited)

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| | <u>For The Six Months Ended</u> | |
|---|------------------------------------|------------------------------------|
| | <u>December 31,</u> <u>2003</u> | <u>December 31,</u> <u>2002</u> |
| Cash flows from operating activities | | |
| Net income | \$ 3,620,577 | \$ 2,657,850 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and depletion | 1,700,931 | 1,148,946 |
| Deferred tax expense | 1,164,653 | 917,937 |
| Realized loss on put option contracts | - | 71,564 |
| (Increase) decrease in: | | |
| Royalty receivables | (1,186,687) | 492,752 |
| Prepaid expenses and other assets | (96,447) | (79,711) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 435,962 | 497,525 |
| Other liabilities | <u>(13,200)</u> | <u>(3,288)</u> |
| Total adjustments | <u>2,005,212</u> | <u>3,045,725</u> |
| Net cash provided by operating activities | <u>5,625,789</u> | <u>5,703,575</u> |

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Consolidated Statements of Cash Flows Continued (Unaudited)

| | <u>For The Six Months Ended</u> | |
|---|------------------------------------|------------------------------------|
| | <u>December 31,</u> <u>2003</u> | <u>December 31,</u> <u>2002</u> |
| Cash flows from investing activities | | |
| Acquisition | \$ - | \$ (1,298,050) |
| Capital expenditures for property and equipment | <u>(59,628)</u> | <u>(3,997)</u> |
| Net cash used in investing activities | <u>(59,628)</u> | <u>(1,302,047)</u> |

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| | | |
|---|------------------------|------------------------|
| Cash flows from financing activities: | | |
| Dividends | (1,032,735) | (1,354,022) |
| Proceeds from issuance of common stock | <u>738,177</u> | <u>14,165,215</u> |
| Net cash provided by (used in) financing activities | <u>(294,558)</u> | <u>12,811,193</u> |
| Net increase in cash and equivalents | <u>5,271,603</u> | <u>17,212,721</u> |
| Cash and equivalents at beginning of period | <u>33,485,543</u> | <u>11,104,140</u> |
| Cash and equivalents at end of period | \$ 38,757,146 ===== | \$ 28,316,861 ===== |

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SCHEDULE A - RECONCILIATION

Non-GAAP Financial Measures

The Company computes and discloses free cash flow and free cash flow as a percentage of revenues, and is a non-GAAP financial measure. Free cash flow is defined by the Company as operating income plus depreciation, depletion and amortization, non-cash charges, and adding back any impairment of mining assets. Management believes that free cash flow and free cash flow as a percentage of revenues are useful measures of performance of our royalty portfolio. Free cash flow identifies the cash generated in a given period that will be available to fund the Company's future operations, growth opportunities, and shareholder dividends. Free cash flow, as defined, is most directly comparable to operating income in the Statements of Operations. Below is reconciliation to operating income:

| | <u>For The Three Months Ended</u> | | <u>For The Six Months Ended</u> | |
|----------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | <u>December 31,</u> <u>2003</u> | <u>December 31,</u> <u>2002</u> | <u>December 31,</u> <u>2003</u> | <u>December 31,</u> <u>2002</u> |
| Operating income | \$ 2,920,595 | \$ 1,598,761 | \$ 4,743,914 | \$ 3,526,903 |
| Depreciation and depletion | <u>786,039</u> | <u>515,109</u> | <u>1,700,931</u> | <u>1,148,946</u> |
| Free cash flow | \$ 3,706,634 ===== | \$ 2,113,870 ===== | \$ 6,444,845 ===== | \$ 4,675,849 ===== |

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