ROYAL GOLD INC
Form 10-K
August 18, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the Fiscal Year Ended June 30, 2011

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 001-13357

Royal Gold, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**84-0835164** (I.R.S. Employer Identification No.)
1660 Wynkoop Street, Suite 1000 **Denver, Colorado** (Address of Principal Executive Offices)	**80202** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common stock, $0.01 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):	Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller 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 ý

Aggregate market value of the voting common stock held by non-affiliates of the registrant, based upon the closing sale price of Royal Gold common stock on December 31, 2010, as reported on the NASDAQ Global Select Market was $2,779,919,388. There were 54,542,852 shares of the Company's common stock, par value $0.01 per share, outstanding as of August 8, 2011. In addition, as of such date, there were 855,795 exchangeable shares of RG Exchangeco Inc., a subsidiary of registrant, outstanding which are exchangeable at any time into shares of the Company's common stock on a one-for-one basis and entitle their holders to dividend and other rights economically equivalent to those of the Company's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2011 Annual Meeting of Stockholders scheduled to be held on November 16, 2011, and to be filed within 120 days after June 30, 2011, are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

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This document (including information incorporated herein by reference) contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which involve a degree of risk and uncertainty due to various factors affecting Royal Gold, Inc. and its subsidiaries. For a discussion of some of these factors, see the discussion in Item 1A, Risk Factors, of this report. In addition, please see our note about forward-looking statements included in Item 7, Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations ("MD&A"), of this report.

PART I

ITEM 1. BUSINESS

Overview

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 and similar interests. 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 in development stage in exchange for royalties or similar interests. We are engaged in a continual review of opportunities to acquire existing royalties, to create new royalties or similar interests through the financing of mine development or exploration, or to acquire companies that hold royalties or similar interests. 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.

As of June 30, 2011, the Company owns royalties on 36 producing properties, 21 development stage properties and 128 exploration stage properties, of which the Company considers 38 to be evaluation stage projects. The Company uses "evaluation stage" to describe exploration stage properties that contain mineralized material and on which operators are engaged in the search for reserves. We do not conduct mining operations, nor are we required to contribute to capital costs (except as contractually obligated to as part of the Mt. Milligan transaction described below), exploration costs, environmental costs or other mining costs on the properties in which we hold royalty interests. During the fiscal year ended June 30, 2011, we focused on the management of our existing royalty interests and the acquisition of royalty and similar interests.

As discussed in further detail throughout this report, some significant developments to our business during fiscal year 2011 were as follows:

(1) Our royalty revenues increased 59% to $216.5 million, compared with $136.6 million during fiscal year 2010;

(2) We acquired the right to purchase 25% of the payable gold produced from the Mt. Milligan copper-gold project located in British Columbia, Canada;

(3) We acquired an additional 0.75% Net Smelter Return sliding-scale royalty on the Pascua-Lama project located on the border between Argentina and Chile;

(4) We made an investment in Seabridge Gold, Inc. ("Seabridge") and obtained an option to acquire up to a 2% Net Smelter Return royalty on their Kerr-Sulphurets-Mitchell project located in British Columbia, Canada; and

(5) We increased our calendar year dividend to $0.44 per basic share, which is paid in quarterly installments throughout calendar year 2011. This represents a 22% increase compared with the dividend paid during calendar year 2010.

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Certain Definitions

Additional Mineralized Material: Additional mineralized material is that part of a mineral system that has potential economic significance but cannot be included in the proven and probable ore reserve estimates until further drilling and metallurgical work is completed, and until other economic and technical feasibility factors based upon such work have been resolved. The Securities and Exchange Commission (the "SEC") does not recognize this term. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves.

Gross Proceeds Royalty (GPR): A royalty in which payments are made on contained ounces rather than recovered ounces.

Gross Smelter Return (GSR) Royalty: A defined percentage of the gross revenue from a resource extraction operation, in certain cases reduced by certain contract-defined costs paid by or charged to the operator.

g/t: A unit representing grams per tonne.

Metal Streaming: A metal purchase agreement that provides, in exchange for an upfront deposit payment, the right to purchase all or a portion of one or more metals produced from a mine, at a price determined for the life of the transaction by the purchase agreement.

Net Profits Interest (NPI): A defined percentage of the gross revenue from a resource extraction operation, after recovery of certain contract-defined pre-production costs, and after deduction of certain contract-defined mining, milling, processing, transportation, administrative, marketing and other costs.

Net Smelter Return (NSR) Royalty: A defined percentage of the gross revenue from a resource extraction operation, less a proportionate share of incidental transportation, insurance, refining and smelting costs.

Net Value Royalty (NVR): A defined percentage of the gross revenue from a resource extraction operation, less certain contract-defined transportation costs, milling costs and taxes.

Proven (Measured) Reserves: Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, and the grade is computed from the results of detailed sampling, and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that the size, shape, depth and mineral content of the reserves are well established.

Probable (Indicated) Reserves: Reserves for which the quantity and grade are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance of probable (indicated) reserves, although lower than that for proven (measured) reserves, is high enough to assume geological continuity between points of observation.

Payable Metal: Ounces or pounds of metal in concentrate payable to the operator after deduction of a percentage of metal in concentrate that is paid to a third-party smelter pursuant to smelting contracts.

Reserve: That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.

Royalty: The right to receive a percentage or other denomination of mineral production from a resource extraction operation.

Ton: A unit of weight equal to 2,000 pounds or 907.2 kilograms.

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Tonne: A unit of weight equal to 2,204.6 pounds or 1,000 kilograms.

Recent Business Developments

Investment in Seabridge Gold, Inc. and the Kerr-Sulphurets-Mitchell Project

On June 16, 2011, the Company, through its wholly-owned subsidiary RG Exchangeco, Inc., (formerly known as RGLD Gold Canada, Inc.), entered into a Subscription Agreement and an Option Agreement with Seabridge, pursuant to which the Company acquired 1,019,000 common shares ("Initial Shares") of Seabridge, approximately 2% of Seabridge's issued and outstanding common stock, in a private placement for $30.7 million (C$30.0 million) at a per share price equal to $30.14 (C$29.44), which represented a premium of 15% to the volume weighted-average trading price of Seabridge common shares on the Toronto Stock Exchange ("TSX") for a five day trading period that ended June 14, 2011.

Pursuant to the Option Agreement, if the Company holds the Initial Shares for a period of 270 days, the Company will have the option to acquire a 1.25% NSR royalty (the "Initial Royalty") on all of the gold and silver production from the Kerr-Sulphurets-Mitchell project (the "Project") in northwest British Columbia, Canada. The purchase price of the Initial Royalty is C$100 million, payable in three installments over a 540 day period, subject to currency exchange rate adjustments.

Pursuant to the Option Agreement, the Company also has an option, exercisable until December 29, 2012, to acquire, in a private placement, additional common shares of Seabridge in an amount up to C$18 million (the "Subsequent Shares"). The purchase price for the Subsequent Shares will be a 15% premium to the volume weighted-average trading price of the Seabridge common shares on the TSX for the specified period. If the Company exercises its option to acquire the Subsequent Shares and holds the Subsequent Shares for a period of 270 days, the Company will have the option to increase the Initial Royalty to a 2.0% NSR royalty (the "Increased Royalty") for a purchase price of C$60 million, payable in three installments over a 540 day period, subject to currency exchange rate adjustments.

The options to acquire the Initial Royalty and the Increased Royalty will remain exercisable by the Company for 60 days following the Company's satisfaction that, among other things, the Project has received all material approvals and permits and that Seabridge has demonstrated that it has sufficient funding for construction of and commencement of commercial production from the Project. Pursuant to the Option Agreement, proceeds of the exercise of the Initial Royalty and the Increased Royalty will be used by Seabridge to develop and construct the Project.

Mt. Milligan Gold Stream Acquisition

On October 20, 2010, the Company entered into a Purchase and Sale Agreement (the "Purchase and Sale Agreement") pursuant to which a wholly-owned subsidiary of the Company, RGLD Gold AG (formerly known as RGL Royalty AG), acquired the right to 25% of the payable gold produced from the Mt. Milligan copper-gold project in British Columbia (the "Gold Purchase Transaction") from Terrane Metals Corp. ("Terrane"), a wholly-owned subsidiary of Thompson Creek Metals Company Inc. ("Thompson Creek"). The parties entered into the Purchase and Sale Agreement and consummated the Gold Purchase Transaction concurrently with the consummation of Thompson Creek's acquisition of Terrane.

Pursuant to the Purchase and Sale Agreement, RGLD Gold AG paid $226.5 million at the closing of the Gold Purchase Transaction. In the future, upon satisfaction of certain conditions set forth in the Purchase and Sale Agreement, RGLD Gold AG will make additional payments (each, an "Additional Payment") to Terrane in an amount not to exceed $85 million in the aggregate to fund a portion of the development costs of the Mt. Milligan project. Upon commencement of production at the Mt. Milligan project, RGLD Gold AG will purchase 25% of the payable gold with a cash payment equal to the lesser of $400 or the prevailing market price for each payable ounce of gold until 550,000 ounces have

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been delivered to RGLD Gold AG, and the lesser of $450 or the prevailing market price for each additional ounce thereafter.

The Company did not make any Additional Payments to Thompson Creek during the fiscal year ended June 30, 2011.

Acquisition of Additional Royalty Interests at Pascua-Lama

On July 1, 2010, the Company entered into two separate assignment of rights agreements with two private Chilean citizens whereby Royal Gold acquired an additional 0.75% NSR sliding-scale royalty on the Pascua-Lama project, which is owned and operated by Barrick Gold Corporation ("Barrick") and located on the border between Argentina and Chile, for a purchase price of $53 million. As a result of the acquisitions, Royal Gold's total gold NSR royalty interest in the Pascua-Lama project increased to 5.23%, at gold prices above $800 per ounce. Pursuant to the assignment of rights agreements, Royal Gold also acquired a 0.20% fixed-rate NSR copper royalty that takes effect after January 1, 2017, increasing Royal Gold's copper royalty interest in the Pascua-Lama project to 1.05%.

In addition, Royal Gold has obtained certain contingent rights and reduced certain obligations with respect to the portion of the Pascua-Lama royalty acquired in the IRC transaction in February 2010. Upon the acquisitions mentioned above, we (i) reduced the contingent payments from $10.4 million to $8.4 million due from Royal Gold to certain individuals who held the royalty if gold prices exceed $600 per ounce for any six month period during the first 36 months of commercial production from the project, and (ii) decreased payments due from Royal Gold to these individuals from $6.4 million to $4.4 million that would be required to extend 24% of our royalty interest beyond 14 million ounces of production from the project. Royal Gold also increased its interest in two one-time payments from $0.5 million to $1.5 million which are payable by Barrick upon the achievement of certain production thresholds at Pascua-Lama.

Siguiri

The Siguiri royalty was subject to a dollar cap of approximately $12.0 million and was considered principal to our business during fiscal year 2010. The dollar cap on the Siguiri royalty was met during the quarter ended December 31, 2010. The Company received its final royalty payment in February 2011.

Taparko

During the quarter ended September 30, 2010, the $35 million cap associated with TB-GSR1 was achieved and the 2.0% GSR royalty (TB-GSR3) became effective. The 15% TB-GSR1 and 0%-10% sliding-scale TB-GSR2 royalties, which were principal to our business terminated upon receipt of the remaining amounts due under the $35 million cap, which occurred in October 2010. The TB-GSR3 royalty covers all gold produced from the Taparko mine. TB-MR1, a 0.75% GSR milling royalty which applies to ore that is mined outside of the defined area of the Taparko project, also remains in effect. The Company does not consider the TB-GSR3 and TB-MR1 royalties at Taparko to be principal (see Item 2, Properties) to our business.

On January 17, 2011, the Company released its security interests in certain collateral that it held pursuant to the Amended and Restated Funding Agreement dated February 22, 2006 (the "Funding Agreement") between the Company and Somita SA ("Somita"), a 90% owned subsidiary of High River Gold Mines Ltd. ("High River") and the operator of the Taparko mine. Following discussions with High River concerning the results of certain production and performance related tests, the Company agreed to release its security interests in the collateral held pursuant to the Funding Agreement, and High River agreed, among other things, to provide certain insurance coverage on the Taparko mine for the benefit of Royal Gold.

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Our Operational Information

Operating Segments, Geographical and Financial Information

We manage our business under one operating segment, consisting of the acquisition and management of royalties and similar interests. Royal Gold's royalty revenue and long-lived assets (royalty interests in mineral properties, net) are geographically distributed as shown in the following table.

	Royalty Revenue Fiscal Year Ended June 30,			Royalty Interests in Mineral Property, net Fiscal Year Ended June 30,		
	2011	2010	2009	2011	2010	2009
United States	24%	40%	56%	3%	5%	13%
Chile	21%	4%	1%	40%	42%	6%
Canada	19%	4%	2%	36%	27%	19%
Mexico	18%	15%	15%	11%	13%	45%
Africa[(1)]	9%	29%	21%	2%	2%	8%
Australia	5%	5%	2%	5%	6%	6%
Other	4%	3%	3%	3%	5%	3%

(1) Consists of royalties on properties in Burkina Faso and Guinea.

Our financial results are primarily tied to the price of gold, silver, copper, nickel and other metals, as well as production from our producing royalty interests as discussed further herein.

Competition

The mining industry in general and the royalty segment in particular are competitive. We compete with other royalty companies, mine operators and financial buyers in efforts to acquire existing royalties and with the lenders, investors and royalty and streaming companies providing financing to operators of mineral properties in our efforts to create new royalties. Many of our competitors in the lending and mining business are larger than we are and have greater resources and access to capital than we have. Key competitive factors in the royalty acquisition and financing business include the ability to identify and evaluate potential opportunities, transaction structure and consideration, and access to capital.

Regulation

Like all mining operations, the operators of the mines that are subject to our royalties must comply with environmental laws and regulations promulgated by federal, state and local governments including, but not limited to, the National Environmental Policy Act; the Comprehensive Environmental Response, Compensation and Liability Act; the Clean Air Act; the Clean Water Act; the Hazardous Materials Transportation Act; and the Toxic Substances Control Act. Mines located on public lands in the United States are subject to the General Mining Law of 1872 and are subject to comprehensive regulation by either the United States Bureau of Land Management (an agency of the United States Department of the Interior) or the United States Forest Service (an agency of the United States Department of Agriculture). The mines also are subject to regulations of the United States Environmental Protection Agency ("EPA"), the United States Mine Safety and Health Administration and similar state and local agencies. Operators of mines that are subject to our royalties in other countries are obligated to comply with similar laws and regulations in those jurisdictions. Although we are not responsible as a royalty owner for ensuring compliance with these laws and regulations, failure by the operators of the mines on which we have royalties to comply with applicable laws, regulations and permits can result in injunctive action, damages and civil and criminal penalties on the operators which could reduce or eliminate production from the mines and thereby reduce or eliminate the royalties we receive and negatively affect our financial condition.

Corporate Information

We were incorporated under the laws of the State of Delaware on January 5, 1981. Our executive offices are located at 1660 Wynkoop Street, Suite 1000, Denver, Colorado 80202; our telephone number is (303) 573-1660.

Available Information

Royal Gold maintains an internet website at www.royalgold.com. Royal Gold makes available, free of charge, through the Investor Relations section of its website, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such material is electronically filed with the SEC. Our SEC filings are available from the SEC's internet website at www.sec.gov which contains reports, proxy and information statements and other information regarding issuers that file electronically. These reports, proxy statements and other information may also be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. The charters of Royal Gold's key committees of the Board of Directors and Royal Gold's Code of Business Conduct and Ethics are also available on the Company's website. Any of the foregoing information is available in print to any stockholder who requests it by contacting Royal Gold's Investor Relations Department at (303) 573-1660.

Company Personnel

We currently have 21 employees, all of whom are located in Denver, Colorado. Our employees are not subject to a labor contract or a collective bargaining agreement. We consider our employee relations to be good.

We also retain independent contractors to provide consulting services, relating primarily to geologic and geophysical interpretations and also relating to such metallurgical, engineering, and other technical matters as may be deemed useful in the operation of our business.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below before making an investment decision. Our business, financial condition, results of operations and cash flows could be materially adversely affected by any of these risks. The market or trading price of our securities could decline due to any of these risks. In addition, please see our note about forward-looking statements included in Part II, Item 7, MD&A, of this report. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

Risks Related to Our Business

We own passive interests in mining properties, and it is difficult or impossible for us to ensure properties are operated in our best interest.

All of our current revenue is derived from royalties on properties operated by third parties. Royalty holders typically have no authority for or control over decisions regarding development or operation of properties on which they hold royalty interests. We have limited or no legal rights to influence those decisions on our royalty properties.

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Our strategy of having third parties operate properties on which we retain a royalty or other passive interest exposes us to the risks created by decisions made by the operators regarding all operating matters, including permitting, feasibility analysis, mine design and operation, processing, plant and equipment matters and temporary or permanent suspension of operations, among others. These decisions are likely to be motivated by the best interests of the operator rather than to maximize royalties. When we create new royalties, we attempt to secure contractual rights, such as audit or access rights, that will permit us to protect our interests, but there can be no assurance that such rights will always be available or sufficient, or that our efforts will be successful in affecting the operation of the properties in which we have royalty interests in ways that would be beneficial to our stockholders.

Volatility in gold, silver, copper, nickel and other metal prices may have an adverse impact on the value of our royalty interests and reduce our royalty revenues. Certain of our royalty contracts have features that may amplify the negative effects of a drop in commodity prices.

The profitability of our royalty interests is directly related to the market price of gold, silver, copper, nickel and other metals. Market prices may fluctuate widely and are affected by numerous factors beyond the control of any mining company, including metal supply, industrial and jewelry fabrication and investment demand, expectations with respect to the rate of inflation, the relative strength of the U.S. dollar and other currencies, interest rates, gold purchases, sales and loans by central banks, forward sales by metal producers, global or regional political, economic or banking conditions, and a number of other factors. If gold, silver, copper, nickel and certain other metal prices drop dramatically, we might not be able to recover our initial investment in royalty interests or properties. Moreover, the selection of a property for exploration or development, the determination to construct a mine and place it into production, and the dedication of funds necessary to achieve such purposes are decisions that must be made long before the first revenues from production will be received. Price fluctuations between the time that decisions about exploration, development and construction are made and the commencement of production can have a material adverse effect on the economics of a mine and can eliminate or have a material adverse impact on the value of royalty interests.

Furthermore, if the market price of gold, silver, copper, nickel or certain other metals declines, then our royalty revenues would also fall. Our sliding-scale royalties, such as Cortez, Holt, Mulatos, Wolverine and others, amplify this effect. When metal prices fall below a certain mark in a sliding-scale royalty, a lower royalty rate is applied to production. In addition, certain of our royalty agreements, such as Andacollo, Robinson, Peñasquito and Voisey's Bay, are based on the operator's concentrate sales to smelters, which include price adjustments between the operator and the smelter based on commodity prices at a later date, typically three to five months. In such cases, our royalty payments from the operator include a component of these later adjustments, which can result in decreased royalty revenue in later periods if commodity prices have fallen.

Volatility in gold, silver, copper and nickel prices is demonstrated by the annual high and low prices for those metals from selected years during the past decade. High and low gold prices per ounce, based on the London Bullion Market Association P.M. fix, have ranged from $293 to $256 in 2001, from $537 to $411 in 2005, from $1,212 to $810 in 2009, and from $1,719 to $1,313 year to date. High and low silver prices per ounce, based on the London Bullion Market Association fix, have ranged from $4.82 to $4.07 in 2001, from $9.23 to $6.39 in 2005, from $19.18 to $10.51 in 2009, and from $48.44 to $26.84 year to date. High and low copper prices per pound, based on the London Metal Exchange cash settlement price for Grade A copper, have ranged from $0.81 to $0.62 in 2001, from $2.08 to $1.44 in 2005, from $3.33 to $1.38 in 2009, and from $4.62 to $3.94 year to date. High and low nickel prices per pound, based on the London Metal Exchange cash settlement price for nickel, have ranged from $3.40 to $1.97 in 2001, from $8.12 to $5.22 in 2005, from $9.31 to $4.25 in 2009, and from $13.28 to $9.62 year to date.

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Our revenues are subject to operational and other risks faced by operators of our mining properties.

Although we are not required to pay capital costs (except as contractually obligated to as part of the Mt. Milligan transaction) or operating costs, our financial results are indirectly subject to hazards and risks normally associated with developing and operating mining properties where we hold royalty interests. Some of these risks include:

- insufficient ore reserves;
- fluctuations in production costs incurred by operators or third parties that may impact the amount of reserves available to be mined, cause an operator to delay or curtail mining operations or render mining of ore uneconomical and cause an operator to close operations;
- declines in the price of gold, silver, copper, nickel and other metals;
- mine operating and ore processing facility problems;
- economic downturns and operators' insufficient financing;
- significant environmental and other regulatory permitting requirements and restrictions and any changes thereto;
- challenges by non-mining interests to existing permits and mining rights, and to applications for permits and mining rights;
- community unrest, labor disputes or work stoppages at mines;
- geological problems;
- pit wall or tailings dam failures or any underground stability issues;
- natural catastrophes such as floods or earthquakes;
- injury to persons, property or the environment;
- the ability of the operators to maintain or increase production or replace reserves as properties are mined; and
- uncertain foreign political and economic environments.

Acquired royalty interests, particularly on development stage properties, are subject to the risk that they may not produce anticipated royalty revenues.

The royalty interests we acquire may not produce anticipated royalty revenues. The success of our royalty acquisitions is based on our ability to make accurate assumptions regarding the valuation, timing and amount of royalty payments, particularly with respect to acquisitions of royalties on development stage properties. If an operator does not bring a property into production and operate in accordance with feasibility studies, technical or reserve reports or other plans, then the acquired royalty interest may not yield sufficient royalty revenues to be profitable. Furthermore, operators of development stage properties must obtain all necessary environmental permits and access to water, power and other raw materials needed to begin production, and there can be no assurance operators will be able to do so. Pascua-Lama in Chile and the Mt. Milligan mining project in Canada, are among our principal development stage royalty acquisitions. The failure of any of these projects to produce anticipated royalty revenues may materially and adversely affect our financial condition and results of operations.

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We depend on our operators for the calculation of royalty payments. We may not be able to detect errors and payment calculations may call for retroactive adjustments.

Our royalty payments are calculated by the operators of the properties on which we have royalties based on their reported production. Each operator's calculation of our royalty payments is subject to and dependent upon the adequacy and accuracy of its production and accounting functions, and, given the complex nature of mining and ownership of mining interests, errors may occur from time to time in the various calculations made by an operator that may render calculations of our royalty payments inaccurate. Certain royalty agreements require the operators to provide us with production and operating information that may, depending on the completeness and accuracy of such information, enable us to detect errors in the calculation of royalty payments that we receive. We do not, however, have the contractual right to receive production information for all of our royalty interests. As a result, our ability to detect royalty payment errors through our royalty monitoring program and its associated internal controls and procedures is limited, and the possibility exists that we will need to make retroactive royalty revenue adjustments. Some of our royalty contracts provide us the right to audit the operational calculations and production data for the associated royalty payments; however, such audits may occur many months following our recognition of the royalty revenue and may require us to adjust our royalty revenue in later periods.

Development and operation of mines is very capital intensive and any inability of the operators of our royalty properties to meet liquidity needs, obtain financing or operate profitably could have material adverse effects on the value of and revenue from our royalty interests.

The development and operation of mines is very capital intensive, and if operators of our royalty properties do not have the financial strength or sufficient credit or other financing capability to cover the costs of developing or operating a mine, the operator may curtail, delay or cease development or operations at a mine site. Operators' ability to raise and service significant, sufficient capital may be affected by, among other things, macroeconomic conditions, future gold, silver, copper, nickel and other metal prices, or a further dislocation in the U.S. or global financial markets as experienced in recent years. If any of the operators of our royalty properties suffer these material adverse effects, then our royalty interests and the value of and revenue from our royalty interests may be materially adversely affected.

Certain of our royalty interests are subject to payment or production caps or rights in favor of the operator or third parties that could reduce the revenues generated from the royalty assets.

Some of our principal royalty interests are subject to limitations, such that the royalty will extinguish after threshold production is achieved or royalty payments at stated thresholds are made. For example, a portion of our royalty at Pascua-Lama and our royalty at Mulatos are subject to production caps. Furthermore, other of our royalty agreements contain rights that favor the operator or third parties. For example, Osisko, the operator of Canadian Malartic, one of our principal development properties, exercised its buy-down right that reduced our royalty interest from a 3% NSR to a 1% NSR. Also, certain individuals from whom we purchased portions of our royalty interest at Pascua-Lama, another of our principal development properties, are entitled to one-time payments if the price of gold exceeds certain thresholds. If any of these thresholds are met or similar rights are exercised, our future royalty revenue could be reduced.

We may enter into acquisitions or other material royalty transactions at any time.

We are engaged in a continual review of opportunities to acquire existing royalties, to create new royalty assets or similar interests through the financing of mining projects 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, technical, financial and other confidential information, submission of indications of interest, obtaining or providing debt commitments for acquisition financing, participation in discussions regarding serving as a financing source in connection with royalty acquisitions, and involvement as a bidder in competitive auctions. Any such acquisition could be material to us and could significantly increase the size and scope of our business. In such event, we could issue substantial amounts of common stock or incur substantial additional indebtedness to fund the acquisition. Issuances of common stock may reduce some or all of our financial measures on a per share basis.

In addition, we may consider opportunities to restructure our royalties where we believe such restructuring would provide a long-term benefit to the Company, though such restructuring may reduce near-term revenues. We could enter into one or more acquisition or restructuring transactions at any time.

We have incurred indebtedness in connection with our royalty acquisitions and could incur substantial additional indebtedness that could have adverse effects on our business.

As of June 30, 2011, the Company had $226.1 million outstanding under its existing credit facilities, which limits the cash flow available to fund acquisitions. In addition, we may incur substantial additional indebtedness in connection with financing acquisitions, strategic transactions or for other purposes. If we were to incur substantial additional indebtedness, it may become difficult for us to satisfy our debt obligations, increase our vulnerability to general adverse economic and industry conditions or require us to dedicate a substantial portion of our cash flow from operations and proceeds of any equity issuances to payments on our indebtedness, any of which results may place us at a competitive disadvantage to our competitors that may have less debt or have other adverse effects upon us.

We may be unable to successfully acquire additional royalty and other similar interests at reasonable prices or on favorable terms.

Our future success largely depends upon our ability to acquire royalty or similar interests at appropriate valuations, including through asset and corporate acquisitions and financings, to replace depleting reserves. Most of our revenues are derived from royalty and other similar interests that we acquire or finance, rather than through exploration of properties. There can be no assurance that we will be able to identify and complete the acquisition of such royalty interests, or businesses that own desired royalty interests, at reasonable prices or on favorable terms, or, if necessary, that we will have sufficient financing on reasonable terms to complete such acquisitions. In addition, we face competition in the acquisition of royalty and other similar interests. If we are unable to successfully acquire additional royalties or other similar interests, the reserves subject to our royalties will decline as the producing royalty properties are mined or payment or production caps on certain of our royalties are met. We also may experience negative reactions from the financial markets or operators of properties on which we seek royalties and other similar interests if we are unable to successfully complete acquisitions of royalty interests or businesses that own desired royalty interests. Each of these factors may adversely affect the trading price of our common stock or our financial condition or results of operations.

Estimates of production by the operators of mines in which we have royalty interests are subject to change, and actual production may vary materially from such estimates.

Production estimates are prepared by the operators of mining properties. There are numerous uncertainties inherent in estimating anticipated production attributable to our royalty interests, including many factors beyond our control and the control of the operators of our royalty properties. We do not participate in the preparation or verification of production estimates and have not independently assessed or verified the accuracy of such information. The estimation of anticipated production is a subjective process and the accuracy of any such estimates is a function of the quality of available data, reliability of production history, variability in grade encountered, mechanical or other problems encountered, engineering and geological interpretation and operator judgment. Rates of production may be less than expected. Results of drilling, metallurgical testing and production, changes in commodity prices, and the evaluation of mine plans subsequent to the date of any estimate may cause actual production to vary materially from such estimates.

Estimates of reserves and mineralization by the operators of mines in which we have royalty interests are subject to significant revision.

There are numerous uncertainties inherent in estimating proven and probable reserves and mineralization, including many factors beyond our control and the control of the operators of our royalty properties. Reserve estimates on our royalty interests are prepared by the operators of the mining properties. We do not participate in the preparation or verification of such reports and have not independently assessed or verified the accuracy of such information. The estimation of reserves and of other mineralized material is a subjective process, and the accuracy of any such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, metallurgical testing and production, and the evaluation of mine plans subsequent to the date of any estimate, may cause a revision of such estimates. The volume and grade of reserves recovered and rates of production may be less than anticipated. Assumptions about gold and other precious metal prices are subject to great uncertainty, and such prices have fluctuated widely in the past. Declines in the market price of gold, silver, copper, nickel or other metals also may render reserves or mineralized material containing relatively lower ore grades uneconomical to exploit. Changes in operating costs and other factors including geotechnical characteristics and metallurgical recovery, may materially and adversely affect reserves. Finally, it is important to note that our royalties give us interests in only a portion of the production from the operators' aggregate reserves, and those interests vary widely based on the individual royalty documents.

Our disclosure controls and internal control over our financial reporting are subject to inherent limitations.

Management has concluded that as of the period ended June 30, 2011, our disclosure controls and procedures and our internal control over financial reporting were effective. Such controls and procedures, however, may not be adequate to prevent or identify existing or future internal control weaknesses due to inherent limitations that are beyond our control, including, but not limited to, our dependence on operators for the calculations of royalty payments as discussed in a previous risk factor. Given our dependence on third party calculations, there is a risk that material misstatements in results of operations and financial condition may not be prevented or detected on a timely basis by our internal controls over financial reporting and may require us to restate our financial statements.

Royalty interests are subject to title and other defects and contest by operators of mining projects and holders of mining rights, and these risks may be hard to identify in acquisition transactions.

While Royal Gold seeks to confirm the existence, validity, enforceability and geographic extent of the royalties it acquires, there can be no assurance that disputes over these and other matters will not arise. Confirming title to mining property on which we hold or seek to acquire a royalty is a complex matter in many jurisdictions, and is subject to the application of the laws of each jurisdiction to the particular circumstances of each parcel of mining property. Similarly, our royalty interests generally are subject to uncertainties and complexities arising from the application of contract and property laws governing private parties and/or local or national governments in the jurisdiction where mining projects are located. Furthermore, royalties in many jurisdictions are contractual in nature, rather than interests in land, and therefore may be subject to change of control, bankruptcy or insolvency of operators, and to challenges of various kinds brought by operators or third parties. We do not usually have the

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protection of security interests over property that we could liquidate to recover all or part of our royalty investment. Disputes also could arise challenging, among other things, the existence or geographic extent of the royalty, third party claims to the same royalty asset or to the property on which we have a royalty, various rights of the operator or third parties in or to the royalty, methods for calculating the royalty, production and other thresholds and caps applicable to royalty payments, the obligation of an operator to make royalty payments, and various defects in the royalty agreement itself. Unknown defects in the royalties we acquire may prevent us from realizing the anticipated benefits from the acquisition, and could materially adversely affect our revenue and results of operations.

Changes in federal and state legislation could decrease our royalty revenues.

A number of our royalty properties are located on U.S. federal lands that are subject to federal mining and other public land laws. Changes in federal or state laws or the regulations promulgated under them could affect mine development and expansion, significantly increase regulatory obligations and compliance costs with respect to mine development and mine operations, increase the cost of holding mining claims or impose additional taxes on mining operations, all of which could adversely affect our royalty revenue from such properties. In recent years, the United States Congress has considered a number of proposed major revisions to the General Mining Law of 1872 (the "General Mining Law"), which governs the creation, maintenance and possession of mining claims and related activities on federal public lands in the United States. Congress also has considered bills recently, which if enacted, would impose royalties payable to the government on hardrock production, increase land holding fees, impose federal reclamation fees, impose additional environmental operating standards and afford greater public involvement and regulatory discretion in the mine permitting process. Such legislation, if enacted, could adversely affect the development of new mines and the expansion of existing mines, as well as increase the cost of all mining operations on federal lands, perhaps materially and adversely affecting mine operators and, therefore, our royalty revenue.

Foreign operations and operation by foreign operators are subject to many risks.

We derived approximately 76% of our revenues from foreign sources during fiscal 2011, compared to 60% in fiscal 2010. Our principal producing royalties on properties outside of the United States are located in Australia, Canada, Chile, Mexico and Spain. We currently have interests in mines and projects outside of the United States in Argentina, Australia, Bolivia, Brazil, Burkina Faso, Canada, Chile, Colombia, Dominican Republic, Finland, Ghana, Guatemala, Honduras, Mexico, Nicaragua, Peru, Siguiri, Russia, Spain and Tunisia. Our foreign activities are subject to the risks normally associated with conducting business in foreign countries. These risks include, depending on the country, such things as volatile exchange controls and currency fluctuations, high rates of inflation, limitations on repatriation of earnings, foreign taxation, enforcement of unfamiliar or uncertain foreign real estate, contract and environmental laws, expropriation or nationalization of property, labor practices and disputes, changes in legislation that could substantially increase the cost of mining operations, renegotiation or nullification of existing licenses, permits, approvals or the like, war, crime, terrorism, civil unrest and uncertain political and economic environments. For example, recently proposed tax legislation in Australia and other foreign jurisdictions could impose large tax obligations on operators that could materially adversely affect the feasibility of new mine development and the profitability of existing mining operations. In addition, many of our operators are organized outside of the United States. Our royalty interests may be subject to the application of foreign laws to our operators, and their stockholders, including laws relating to foreign ownership structures, corporate transactions, creditors' rights, bankruptcy and liquidation. Foreign operations also could be adversely impacted by laws and policies of the United States affecting foreign trade, investment and taxation.

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The mining industry is subject to significant environmental risks.

Mining is subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products occurring as a result of mineral exploration and production. Laws and regulations in the United States and abroad intended to ensure the protection of the environment are constantly changing and generally are becoming more restrictive and costly. Furthermore, mining may be subject to significant environmental and other permitting requirements regarding the use of raw materials, particularly water, needed for operations. If an operator is forced to incur significant costs to comply with environmental regulations or becomes subject to environmental restrictions that limit its ability to continue or expand operations, or if an operator were to lose its right to use or access water or other raw materials necessary to operate a mine, our royalty revenues could be reduced, delayed, or eliminated. These risks are most salient with regard to our development stage royalty properties where permitting may not be complete and where new legislation and regulation can lead to delays, interruptions and significant unexpected cost burdens for mine operators. For example, legislation was enacted in Argentina (but subsequently suspended by litigation) which could stop or curtail mining activities on or near the country's glaciers. We have royalty interests on the Chilean side of the Pascua-Lama Project, which straddles the border between Chile and Argentina, and the new legislation in Argentina, if upheld in the litigation, could affect the feasibility, design, development and operation of the Pascua-Lama Project. Further, to the extent that we become subject to environmental liabilities for the time period during which we were operating properties, the satisfaction of any liabilities would reduce funds otherwise available to us and could have a material adverse effect on our financial condition, results of operations and cash flows.

Regulations and pending legislation governing issues involving climate change could result in increased operating costs to the operators of the properties on which we have royalties.

A number of governments or governmental bodies have introduced or are contemplating regulatory changes in response to the potential impacts of climate change. The December 1997 Kyoto Protocol, which ends in 2012, established a set of greenhouse gas emission targets for countries that have ratified the Protocol, which include Canada, Ghana, Australia and Peru. Furthermore, the U.S. Congress and several states have initiated legislation regarding climate change that will affect energy prices and demand for carbon intensive products. Additionally, the Australian Government may potentially reintroduce a national emissions trading scheme and mandatory renewable energy targets. Legislation and increased regulation regarding climate change could impose significant costs on the operators of our royalty properties, including increased energy, capital equipment, environmental monitoring and reporting and other costs to comply with such regulations. If an operator of a property on which we have royalty interests is forced to incur significant costs to comply with climate change regulation or becomes subject to environmental restrictions that limit its ability to continue or expand operations, our royalty revenues from that property could be reduced, delayed, or eliminated.

We depend on the services of our President and Chief Executive Officer and other key employees and on the participation of our Chairman.

We believe that our success depends on the continued service of our key executive management personnel. Currently, Tony Jensen is serving as our President and Chief Executive Officer. Mr. Jensen's extensive commercial experience, mine operations background and industry contacts give us an important competitive advantage. Furthermore, our Chairman, Stanley Dempsey, who served as our Executive Chairman until his retirement as an officer of the Company in January 2009, remains closely involved with us. Mr. Dempsey's knowledge of the royalty business and long-standing relationship with the mining industry are important to our success. The loss of the services of Mr. Jensen or other key employees could jeopardize our ability to maintain our competitive position in the industry. We currently do not have key person life insurance for any of our officers or directors.

Risks Related to Our Common Stock

Our stock price may continue to be volatile and could decline.

The market price of our common stock has fluctuated and may decline in the future. The high and low sale prices of our common stock on the NASDAQ Global Select Market were $49.81 and $22.75 for the fiscal year ended June 30, 2009, $55.96 and $37.35 for the fiscal year ended June 30, 2010 and $62.33 and $42.15 for the fiscal year ended June 30, 2011. The fluctuation of the market price of our common stock has been affected by many factors that are beyond our control, including:

- market prices of gold, silver, copper, nickel and other metals;
- interest rates;
- expectations regarding inflation;
- ability of operators to produce precious metals and develop new reserves;
- currency values;
- credit market conditions;
- general stock market conditions; and
- global and regional political and economic conditions.

Additional issuances of equity securities by us could reduce some or all of our financial measures on a per share basis, reduce the trading price of our common stock or impede our ability to raise future capital.

We may issue equity in the future in connection with acquisitions, strategic transactions or for other purposes. To the extent we issue additional equity securities, some or all of our financial measures on a per share basis could be reduced. In addition, the shares of common stock that we issue in connection with an acquisition may not be subject to resale restrictions. The market price of our common stock could decline if certain large holders of our common stock, or recipients of our common stock in connection with an acquisition, sell all or a significant portion of their shares of common stock or are perceived by the market as intending to sell these shares other than in an orderly manner. In addition, these sales also could impair our ability to raise capital through the sale of additional common stock in the capital markets.

We may change our practice of paying dividends.

We have paid a cash dividend on our common stock for each fiscal year beginning in fiscal year 2000. Our board of directors has discretion in determining whether to declare a dividend based on a number of factors, including prevailing gold prices, economic market conditions and funding requirements for future opportunities or operations. If our board of directors declines to declare dividends in the future or reduces the current dividend level, our stock price could fall, and the success of an investment in our common stock would depend largely upon any future stock price appreciation. We have increased our dividends in prior years. There can be no assurance, however, that we will continue to do so or that we will pay any at all.

Certain anti-takeover provisions could delay or prevent a third party from acquiring us.

Provisions in our restated certificate of incorporation and bylaws may make it more difficult for third parties to acquire control of us or to remove our management. Some of these provisions:

permit our board of directors to issue preferred stock that has rights senior to the common stock without stockholder approval;

- provide for three classes of directors serving staggered, three-year terms; and

- require certain advanced notice of information relating to stockholder nominations and proposals.

We are also subject to the business combination provisions of Delaware law that could delay, deter or prevent a change in control. In addition, we have adopted a stockholder's rights plan that imposes significant penalties upon a person or group that acquires 15% or more of our outstanding common stock without the approval of the board of directors. Any of these measures could prevent a third party from pursuing an acquisition of Royal Gold, even if stockholders believe the acquisition is in their best interests.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We do not own or operate the properties in which we have royalty interests and therefore much of the information disclosed in this Form 10-K regarding these properties is provided to us by the operators. For example, the operators of the various properties provide us information regarding metals production, estimates of mineral reserves and additional mineralized material and production estimates. A list of our producing and development stage royalties, as well their respective reserves are summarized below in Table 1 within this Item 2. There is more information available to the public regarding certain properties in which we have royalties, including reports filed with the SEC or with the Canadian securities regulatory agencies available at www.sec.gov or www.sedar.com, respectively.

The description of our principal royalties set forth below includes the location, operator, royalty rate, access and any material current developments at the property. Please refer to Item 7, MD&A, for discussion on production estimates, historical production and revenue for our principal properties. The map below illustrates the location of our principal producing and development stage properties.

Principal Royalties on Producing Properties

The Company considers both historical and future potential revenues in determining which royalties in our portfolio are principal to our business. Estimated future potential royalty revenues from both producing and development properties are based on a number of factors, including reserves subject to our royalty interests, production estimates, feasibility studies, metal price assumptions, mine life, legal status and other factors and assumptions, any of which could change and could cause Royal Gold to conclude that one or more of such royalties are no longer principal to our business. As of

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June 30, 2011, the Company considers the properties discussed below (listed alphabetically) to be principal to our business.

Andacollo (Region IV, Chile)

We own a royalty on all gold produced from the sulfide portion of the Andacollo copper and gold deposit. The Andacollo royalty equals 75% of the gold produced from the sulfide portion of the deposit at the Andacollo mine until 910,000 payable ounces of gold have been sold, and 50% of the gold produced in excess of 910,000 payable ounces of gold. As of June 30, 2011, approximately 46,000 payable ounces of gold have been sold.

Andacollo is an open-pit copper mine and milling operation located in central Chile, Region IV in the Coquimbo Province and is operated by a subsidiary of Teck. Andacollo is located in the foothills of the Andes Mountains approximately 1.5 miles southwest of the town of Andacollo. The provincial capital of La Serena and the coastal city of Coquimbo are approximately 34 miles northeast of the Andacollo project by road, and Santiago is approximately 215 miles south by air. Access to the mine is provided by Route 43 (R-43) south from La Serena to El Peñon. From El Peñon, D-51 is followed east and eventually curving to the south to Andacollo. Both R-43 and D-51 are paved roads.

In April 2011, Teck announced that they will undertake an expansion study at Andacollo to examine the feasibility of adding an additional SAG mill, ball mill and other equipment aimed at increasing production. Teck estimates that adding additional equipment could increase annual production by 25%-50%.

Canadian Malartic (Quebec, Canada)

We own a 1.0% to 1.5% sliding-scale NSR royalty ($0.00 to $350.00 - 1.0%; above $350 - 1.5%) on the Canadian Malartic open-pit gold mine and milling operation located in Quebec, Canada, and owned by Osisko. The Canadian Malartic gold property is located in the Abitibi Gold Belt in Quebec, Canada, immediately south of the town of Malartic, Quebec, approximately 16 miles west of the town of Val d'Or. The northern extent of the Canadian Malartic property can be accessed directly from the Trans Canadian Highway 117.

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Osisko announced that they reached commercial production at their Canadian Malartic mine on May 19, 2011. For the 30-day period ending June 17, 2011, the mill averaged 33,300 tonnes per day exceeding the 33,000 tonnes per day (60% of the 55,000 tonnes per day designed capacity) standard required to declare commercial production. Osisko achieved this milestone ahead of their August 2011 target.

Osisko also reported that production ramp-up is progressing well at the mill plant with an average throughput of 38,913 tonnes per day through mid June 2011. Recovery rates are currently higher than anticipated, mainly due to longer retention time in the leach circuit and a better-than-designed size fraction as the mill has not yet been brought up to full capacity. Osisko plans to continue to de-bug the operation as they focus on achieving the design capacity of 55,000 tonnes per day and optimizing the operating performance.

Cortez (Nevada, USA)

Cortez is a large open-pit and underground mine, utilizing mill and heap leach processing. The operation is located approximately 60 air miles southwest of Elko, Nevada, in Lander County. The site is reached by driving west from Elko on Interstate 80 approximately 46 miles, and proceeding south on State Highway 306 approximately 23 miles. Our royalty interest at Cortez is subject to the Pipeline, South Pipeline, Gap and Crossroads deposits and is operated by subsidiaries of Barrick.

The royalty interests we hold at Cortez include:

(a) *Reserve Claims ("GSR1").* This is a sliding-scale GSR royalty for all products from an area originally known as the "Reserve Claims," which includes the majority of the Pipeline and South Pipeline deposits. The GSR royalty rate on the Reserve Claims is tied to the gold price as shown in the table below and does not include indexing for inflation or deflation.

(b) *GAS Claims ("GSR2").* This is a sliding-scale GSR royalty for all products from an area outside of the Reserve Claims, originally known as the "GAS Claims," which encompasses approximately 50% of the GAP deposit and all of the Crossroads deposit. The GSR royalty rate on the GAS Claims, as shown in the table below, is tied to the gold price, without indexing for inflation or deflation.

(c) *Reserve and GAS Claims Fixed Royalty ("GSR3").* The GSR3 royalty is a fixed rate GSR royalty of 0.7125% and covers the same cumulative area as is covered by our two sliding-scale GSR royalties, GSR1 and GSR2, except mining claims that comprise the undeveloped Crossroads deposit.

(d) *Net Value Royalty ("NVR1").* This is a fixed 1.25% NVR on production from the GAS Claims located on a portion of Cortez that excludes the Pipeline open pit. The Company owns 31.6% of the 1.25% NVR (or 0.39%) while limited partners (including certain directors of the Company) in the partnership, which is consolidated in our financial statements, own the remaining portion of the 1.25% NVR. Our 0.39% portion of the NVR1 royalty does not cover the mining claims that comprise the undeveloped Crossroads deposit.

We also own three other royalties in the Cortez area where there is currently no production and no reserves attributed to these royalty interests.

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The following shows the current sliding-scale GSR1 and GSR2 royalty rates under our royalty agreement with Cortez:

London P.M. Quarterly Average Price of Gold Per Ounce ($U.S.)	GSR1 and GSR2 Royalty Percentage
Below $210.00	0.40%
$210.00 - $229.99	0.50%
$230.00 - $249.99	0.75%
$250.00 - $269.99	1.30%
$270.00 - $309.99	2.25%
$310.00 - $329.99	2.60%
$330.00 - $349.99	3.00%
$350.00 - $369.99	3.40%
$370.00 - $389.99	3.75%
$390.00 - $409.99	4.00%
$410.00 - $429.99	4.25%
$430.00 - $449.99	4.50%
$450.00 - $469.99	4.75%
$470.00 - and above	5.00%

As the Company reported during the third quarter of fiscal 2011, production at Cortez decreased during the period as Barrick has turned its focus to production of Cortez Hills ore, which is not subject to the Company's royalty. The Company anticipates that Barrick will continue to focus on Cortez Hills and production at Pipeline will remain at decreased levels, as reflected in the calendar 2011 mine plan provided by Barrick.

Dolores (Chihuahua, Mexico)

We own a 3.25% NSR royalty on gold and a 2.0% NSR royalty on silver from the Dolores open-pit mine and heap leach operation located in Chihuahua, Mexico, and operated by Minefinders. The Dolores project is located approximately 155 miles west of the city of Chihuahua, Mexico. The property can be accessed by approximately 56 miles of recently upgraded access road from Yepachi, Chihuahua, to the mine site. Access to the property can also be achieved by light aircraft landing on a dirt strip located about five miles from the mine site.

Minefinders has reported that at Dolores they continue to sustain improved leach results on the Stage 2 pad. Minefinders has also stated that they are continuing to assess the addition of a milling operation at Dolores and the development of an underground resource. Minefinders has reiterated that they expect to achieve their calendar 2011 guidance of 65,000 to 70,000 ounces of gold and 3.3 million to 3.5 million ounces of silver.

Holt (Ontario, Canada)

We own a sliding-scale NSR royalty on the Holt portion of the Holloway-Holt mining project located in Ontario, Canada and owned 100% by St Andrew. The Holloway-Holt project straddles Ontario Provincial Highway 101 for approximately 25 miles beginning east of Matheson, Ontario, Canada and extending to the Quebec, Canada border. The sliding-scale NSR royalty rate on gold produced from the Holt portion of the mining project is calculated by multiplying 0.00013 by the quarterly average gold price. For example, at a quarterly average gold price of $1,500 per ounce, the effective royalty rate payable would be 19.5%.

In April 2011, St Andrew announced that the Holt mine achieved commercial production after operating for 90 days at an average throughput of between 450 to 500 tonnes per day. Production throughput is anticipated to increase from the initial rate of 500 tonnes per day to 1,000 tonnes per day around the end of calendar 2011. In August 2011, St Andrew revised its calendar 2011 gold production estimate to between 23,000 and 26,000 ounces of gold, of which St Andrew expects approximately 13,000 to 16,000 ounces of gold to be produced during the second half of calendar 2011.

The Company began recognizing royalty revenue on the Holt royalty during the three months ended March 31, 2011.

Las Cruces (Andalucía, Spain)

We own a 1.5% NSR royalty on the Las Cruces copper mine and milling operation located in Andalucía, Spain and operated by Inmet. The Las Cruces mine is located in the Seville Province of southern Spain, about 12 miles northwest of the Provincial capital city of Seville. Access to the site is by well-maintained paved roads.

Inmet reported that production during the June 2011 quarter was adversely impacted by a planned 16-day maintenance outage at the Las Cruces mine. The outage was taken to install new components and modify equipment that will increase the underflow (solids) density of the grinding thickener to the design capacity of 80%. After the shutdown, the plant started-up and achieved record throughput above 80% of design and record weekly production of 1,340 tonnes of cathode copper. However, within two weeks of the start-up (early July 2011), a support structure of the new grinding thickener failed due to a faulty weld leading to a further seven day shutdown for repair.

Leeville (Nevada, USA)

We own a carried working interest, equal to a 1.8% NSR royalty, which covers the majority of the Leeville underground mine, in Eureka County, Nevada. Leeville is approximately 19 air miles northwest of Carlin, Nevada, and is operated by a subsidiary of Newmont. The property is accessed by driving north from Carlin on Nevada State Highway 766 for 19 miles and then on an improved gravel road for two miles.

Mulatos (Sonora, Mexico)

We own a 1.0% to 5.0% sliding-scale NSR royalty on the Mulatos open-pit mine and heap leach operation in southeastern Sonora, Mexico. The Mulatos mine is located approximately 137 miles east of the city of Hermosillo and 186 miles south of the border with the United States and is operated by Alamos. Access to the mine from the city of Hermosillo can be made via private chartered flight or paved and gravel road.

The sliding-scale NSR royalty is based on the gold price as shown in the following table:

London Bullion Market Association P.M. Monthly Average Price of Gold per Ounce (US$)	NSR Royalty Percentage
$0.00 - $299.99	1.00%
$300.00 - $324.99	1.50%
$325.00 - $349.99	2.00%
$350.00 - $374.99	3.00%
$375.00 - $399.99	4.00%
$400 or greater	5.00%

The Mulatos royalty is capped at 2.0 million gold ounces of production. As of June 30, 2011, approximately 732,000 cumulative ounces of gold have been produced.

Alamos reported that for the third consecutive month, crusher throughput improved and they expect to meet throughput of 15,000 tonnes per day throughout the remainder of calendar 2011.

Although production during the second quarter of calendar 2011 was impacted by extreme drought conditions and supplier issues, Alamos stated they expect to recover deferred production throughout the remainder of calendar 2011. Alamos also reported that construction is underway on a high-grade mill that could boost output by another 60,000 ounces per year. Production from this new gravity mill is expected to commence in calendar 2012.

Peñasquito (Zacatecas, Mexico)

We own a production payment equivalent to a 2.0% NSR royalty on all metal production from the Peñasquito open-pit mine, located in the State of Zacatecas, Mexico, and operated by Goldcorp. The Peñasquito project is located approximately 17 miles west of the town of Concepción del Oro, Zacatecas, Mexico. The project, composed of two main deposits called Peñasco and Chile Colorado, hosts large silver, gold, zinc and lead reserves. The deposits contain both oxide and sulfide material, resulting in heap leach and mill processing. Access to the site is via either paved or cobbled roads west out of Concepcion del Oro nine miles to the town of Mazapil and then further approximately seven miles west from Mazapil.

Goldcorp reported that higher grades and recoveries of gold, silver, lead and zinc were offset by lower processing rates. Goldcorp expects these issues to be resolved by the end of calendar 2011. Goldcorp also reported that oxide gold production will be delayed in the second half of calendar 2011 due to restricted cyanide deliveries from supplier shortages.

Robinson Mine (Nevada, USA)

We own a 3.0% NSR royalty on all mineral production from the Robinson open-pit mine and mill operation operated by a subsidiary of Quadra. Access to the property is via Nevada State Highway 50, 6.5 miles west of Ely, Nevada, in White Pine County.

In July 2011, Quadra reported that the removal of mud from the bottom of the Ruth Pit was completed approximately four weeks ahead of schedule. As previously reported by Quadra, the production profile at Robinson is expected to increase in the second half of calendar 2011, benefiting from access to higher grade material at the bottom of the pit, as well as additional haulage capacity. Quadra reported that ore processed at the beginning of the third quarter of calendar 2011 contained significantly higher grade versus the second calendar quarter, and they expect grades to further improve in the fourth calendar quarter.

Voisey's Bay (Labrador, Canada)

We own an effective 2.7% NSR royalty on the Voisey's Bay nickel-copper-cobalt mine located in Newfoundland and Labrador, Canada and operated by Vale. The Company owns 90% of a 3.0% NSR (or 2.7%) while a non-controlling interest owns the remainder. The Voisey's Bay project is located on the northeast coast of Labrador, on a peninsula bordered to the north by Anaktalak Bay and to the south by Voisey's Bay. The property is 560 miles north-northwest of St. John's, the capital of the Province. Access to the property is by helicopter, small aircraft or tracked vehicles during the winter. We have disputed the manner of calculation of our royalty payments. Please refer to Note 17 of the notes to consolidated financial statements for more information regarding the dispute.

On January 31, 2011, Vale announced that a new five-year collective bargaining agreement was ratified by the United Steel Workers Local 9508, representing mine and mill operations employees at Voisey's Bay, thus ending the strike that began August 1, 2009. Operations at Voisey's Bay have been returning to normalcy.

In June 2011, Vale provided an update concerning construction of its Long Harbour project the hydrometallurgical facility that Vale is building in Newfoundland and Labrador, Canada. The facility will treat Voisey's Bay ore to produce 50,000 tonnes per year of nickel and associated copper and cobalt. At an estimated capital cost of $2.8 billion, the plant is scheduled for commissioning and start-up during calendar 2013. To-date, the project is about 40% complete with engineering completion at approximately 80% and construction at about 20%

Wolverine (Yukon Territory, Canada)

We own a 0.00% to 9.445% sliding-scale NSR royalty on all gold and silver produced from the Wolverine underground mine and milling operation located in Yukon Territory, Canada, and operated by Yukon Zinc. The Wolverine property is located 106 miles north-northwest of Watson Lake in south central Yukon Territory. Access to the property is provided by a 17 mile gravel road heading south and then northeast to the Robert Campbell Highway at a point approximately 120 miles north of Watson Lake.

The sliding-scale NSR royalty on all gold and silver is based on the silver price as shown in the following table:

London Bullion Market Association Monthly Average Price of Silver per Ounce (US$)	NSR Royalty Percentage
less than $5.00	0%
$5.00 - $7.50	3.778%
$7.51 or greater	9.445%

Yukon Zinc reported that the start-up of the Wolverine project is complete. The processing plant is currently operating at 300 to 500 tonnes of concentrate per day. During pre-commissioning prior to the end of calendar 2010, about 3,300 tonnes of concentrate were produced. This concentrate was shipped during the first quarter of calendar 2011. Yukon Zinc expects to increase production to the design capacity of 1,700 tonnes per day of concentrate during calendar 2011 with commercial production levels of 60%-70% of design capacity expected to be realized in the third quarter of calendar 2011.

The Company began recognizing royalty revenue on the Wolverine royalty during the three months ended March 31, 2011.

Principal Royalties on Development Stage Properties

The following is a description of our principal royalty interests on development stage properties (listed alphabetically). Reserves for our development stage properties are summarized below in Table 1 as part of this Item 2, Properties.

Mt. Milligan (British Columbia, Canada)

We own the right to purchase 25% of the payable gold produced from the Mt. Milligan copper-gold project in British Columbia, Canada, and operated by Thompson Creek. The Mt. Milligan project is located within the Omenica Mining Division in North Central British Columbia, approximately 96 miles northwest of Prince George, 53 miles north of Fort St. James, and 59 miles west of Mackenzie. The Mt. Milligan project is accessible by commercial air carrier to Prince George, British Columbia, then by vehicle from the east via Mackenzie on the Finlay Philip Forest Service Road and the North Philip Forest Service Road.

Upon commencement of production at the Mt. Milligan project, RGLD Gold AG, a wholly-owned subsidiary of the Company, will purchase 25% of payable gold with a cash payment equal to the lesser of $400 or the prevailing market price for each payable ounce of gold until 550,000 ounces have been

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delivered to RGLD Gold AG, and the lesser of $450 or the prevailing market price for each additional ounce thereafter.

The Company, along with an independent engineering firm who is monitoring and confirming the Company's required participation in funding construction of the Mt. Milligan project, conducted a site visit to Mt. Milligan in July 2011. Some of the progress at Mt. Milligan includes the plant, shop and administration foundations earthworks, the concrete batch plant, and delivery of a significant portion of the necessary steel.

Thompson Creek announced that their current capital expenditures estimate to construct the Mt. Milligan mine is approximately C$1.3 billion (US$1.3 billion), of which approximately $208 million has been spent since inception of the project through June 30, 2011, and an additional $466 million has been committed since inception of the project. Thompson Creek is targeting a start-up at Mt. Milligan in calendar 2013 and expects to produce approximately 194,000 ounces of gold annually.

Pascua-Lama Project (Region III, Chile)

As of June 30, 2011, we own a 0.78% to 5.23% sliding-scale NSR royalty on the Pascua-Lama project, which straddles the border between Argentina and Chile, and is being developed by Barrick. The Company owns an additional royalty equivalent to 1.05% of proceeds from copper produced from the Chilean portion of the project, net of allowable deductions, sold on or after January 1, 2017. The Pascua-Lama project is located within 7 miles of Barrick's operating Veladero mine. Access to the project is from the city of Vallenar, Region III, Chile, via secondary roads C-485 to Alto del Carmen, Chile, and C-489 from Alto del Carmen to El Corral, Chile.

Our royalty interest is applicable to all gold production from the portion of the Pascua-Lama project lying on the Chilean side of the border. In addition, our interest at Pascua-Lama contains certain contingent rights and obligations. Specifically, (i) if gold prices exceed $600 per ounce for any six month period during the first 36 months of commercial production from the project, the Company would make a one-time payment of $8.4 million, (ii) approximately 20% of the royalty is limited to 14.0 million ounces of gold produced from the project, while 24% of the royalty can be extended beyond 14.0 million ounces of gold produced for a one-time payment of $4.4 million; and (iii) Royal Gold also increased its interest in two one-time payments from $0.5 million to $1.5 million, which are payable by Barrick upon the achievement of certain production thresholds at Pascua-Lama.

The sliding-scale NSR royalty is based upon the gold price as shown in the following table:

London Bullion Market Association P.M. Monthly Average Price of Gold per Ounce (US$)	NSR Royalty Percentage
less than $325	0.78%
$400	1.57%
$500	2.72%
$600	3.56%
$700	4.39%
$800 or greater	5.23%

Note: Royalty rate is interpolated between the upper and lower endpoints.

In July 2011, Barrick announced a revised pre-production capital estimate of approximately $4.7-$5.0 billion for the Pascua-Lama project. The revised estimate represents an approximate 40% increase from Barrick's original estimate. Barrick also reported that expected annual gold production has increased 775,000 ounces to 800,000-850,000 ounces in the first full five years of operation.

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Reserve Information

Table 1 below summarizes proven and probable reserves for gold, silver, copper, nickel, zinc, lead and cobalt that have been reported to us by the operators of our royalty interests as of December 31, 2010. Properties are currently in production unless noted as development ("DEV") within the table. The exploration royalties we own do not contain proven and probable reserves as of December 31, 2010. Please refer to pages 26-28 for the footnotes to Table 1.

Table 1

Proven and Probable Gold Reserves
As of December 31, 2010[1]

Gold[2]

				PROVEN + PROBABLE RESERVES[3][4][5]		
PROPERTY	**ROYALTY**	**OPERATOR**	**LOCATION**	**Tons of Ore (M)**	**Average Gold Grade (opt)**	**Gold Contained Ozs[6] (M)**
Bald Mountain	3.5% - 5.0% NSR[7]	Barrick	United States	74.08	0.023	1.704
Cortez (Pipeline) GSR1	0.40 - 5.0% GSR[8]	Barrick	United States	67.08	0.035	2.343[9]
Cortez (Pipeline) GSR2	0.40 - 5.0% GSR[8]	Barrick	United States	118.43	0.029	3.428[9]
Cortez (Pipeline) GSR3	0.71% GSR	Barrick	United States	103.24	0.029	3.003[9]
Cortez (Pipeline) NVR1	0.39% NVR	Barrick	United States	68.60	0.033	2.244[9]
Gold Hill (DEV)	1.0 - 2.0% NSR[10][11]	Kinross/Barrick	United States	23.34	0.016	0.365
	0.9% NSR[12]	Kinross/Barrick	United States			
Goldstrike (SJ Claims)	0.9% NSR	Barrick	United States	49.60	0.104	5.164
Leeville	1.8% NSR	Newmont	United States	5.58	0.294	1.641
Marigold (DEV)[13]	2.0% NSR	Goldcorp/Barrick	United States	55.41	0.016	0.905
Relief Canyon (DEV)[14]	4.0% NSR	Firstgold	United States			
Robinson	3.0% NSR	Quadra FNX	United States	121.28	0.005	0.640
Soledad Mountain (DEV)	3.0% NSR	Golden Queen	United States	51.22	0.021	1.052
Twin Creeks	2.0% GPR	Newmont	United States	1.80	0.080	0.143
Wharf	0.0 - 2.0% NSR[15]	Goldcorp	United States	23.88	0.025	0.600
Canadian Malartic	1.0 - 1.5% NSR[16]	Osisko	Canada	150.56	0.031	4.727
Holt[17]	0.00013 × quarterly avg. gold price	St Andrew	Canada	3.46	0.148	0.510
Kutcho Creek (DEV)	1.6% NSR	Capstone Mining	Canada	11.51	0.011	0.125
Mt. Milligan (DEV)[18]	25% of payable gold	Thompson Creek	Canada	531.80	0.011	6.020
Pine Cove (DEV)	7.5% NPI	Anaconda Mining	Canada	2.90	0.060	0.175
Schaft Creek (DEV)	3.5% NPI	Copper Fox	Canada	904.99	0.006	5.570
Williams	0.97% NSR	Barrick	Canada	12.17	0.070	0.857
Wolverine	0.0 - 9.445% NSR[19]	Yukon Zinc	Canada	5.68	0.040	0.225
Dolores	3.25% NSR	Minefinders	Mexico	118.65	0.017	2.024
El Chanate	2.0 - 4.0% NSR[20]	AuRico	Mexico	70.78	0.019	1.355
Mulatos	1.0 - 5.0% NSR[21]	Alamos	Mexico	64.45	0.037	2.387
Peñasquito[22]	2.0% NSR (Oxide)	Goldcorp	Mexico	74.74	0.005	0.400
	2.0% NSR (Sulfide)	Goldcorp	Mexico	1,566.82	0.012	18.170
Andacollo	75% NSR[23]	Teck	Chile	440.59	0.004	1.594
Pascua-Lama (DEV)[24]	0.78 - 5.23% NSR[25]	Barrick	Chile	320.92	0.046	14.685
El Toqui	1.0 - 3.0% NSR[26]	Breakwater	Chile	3.89	0.070	0.270

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Gold[2] Continued

PROPERTY	ROYALTY	OPERATOR	LOCATION	PROVEN + PROBABLE RESERVES[3][4][5] Tons of Ore (M)	Average Gold Grade (opt)	Gold Contained Ozs[6] (M)
Don Mario	3.0% NSR	Orvana	Bolivia	6.29	0.041	0.259
El Limon	3.0% NSR	B2Gold	Nicaragua	2.26	0.131	0.296
Martha	2.0% NSR	Coeur d'Alene	Argentina	0.05	0.020	0.001
Balcooma[27]	1.5% NSR	Kagara	Australia	0.67	0.007	0.005
Bundarra (DEV)[14]	1.5% NSR	Terrain	Australia			
Gwalia Deeps	1.5% NSR	St . Barbara	Australia	11.28	0.213	2.406
Kundip (DEV)	1.0 - 1.5% GSR[28]	Tectonic Resources	Australia	3.10	0.098	0.305
Meekatharra (Paddy's Flat) (DEV)	1.5% NSR	Reed Resources	Australia	2.19	0.140	0.308
	A$10 per gold ounce produced[29]	Reed Resources	Australia	2.19	0.140	0.308
Meekatharra (Yaloginda) (DEV)	0.45% NSR	Reed Resources	Australia			

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DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this Report) and other public filings and press releases by us contain forward-looking statements within the meaning of the Securities Act of 1933, as amended (the Securities Act), and the Securities Exchange Act of 1934, as amended (the Exchange Act), and the Private Securities Litigation Reform Act of 1995, as amended. These forward-looking statements involve risk and uncertainty. These forward-looking statements include, without limitation, statements relating to: liquidity; financing of operations; continued volatility of oil and natural gas prices; source and sufficiency of funds required for immediate capital needs and additional rig acquisitions (if further opportunities arise); impact of inflation; demand for our services; and other matters. Our forward-looking statements can be identified by the fact that they do not relate strictly to historic or current facts and often use words such as believes, budgeted, continue, expects, estimates, project, will, could, may, plans, intend anticipates, or the negative thereof and other words and expressions of similar meaning. The forward-looking statements are based on certain assumptions and analyses we make in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Forward-looking statements may be made orally or in writing, including, but not limited to, Management s Discussion and Analysis of Financial Condition and Results of Operations included in this Report and other sections of our filings with the United States Securities and Exchange Commission (the SEC) under the Exchange Act and the Securities Act.

Forward-looking statements are not guarantees of future performance and a variety of factors could cause actual results to differ materially from the anticipated or expected results expressed in or suggested by these forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, deterioration of global economic conditions, declines in oil and natural gas prices that could adversely affect demand for our services and their associated effect on day rates, rig utilization and planned capital expenditures, excess availability of land drilling rigs, including as a result of the reactivation or construction of new land drilling rigs, adverse industry conditions, adverse credit and equity market conditions, difficulty in integrating acquisitions, demand for oil and natural gas, shortages of rig equipment, governmental regulation and ability to retain management and field personnel. Refer to Risk Factors contained in Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2009 for a more complete discussion of these and other factors that might affect our performance and financial results. You are cautioned not to place undue reliance on any of our forward-looking statements. These forward-looking statements are intended to relay our expectations about the future, and speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, changes in internal estimates or otherwise.

ITEM 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Management Overview We are a leading provider of contract services to the North American oil and natural gas industry. Our services primarily involve the drilling, on a contract basis, of land-based oil and natural gas wells and, to a lesser extent, pressure pumping services. In addition to the aforementioned contract services, we also invest, on a working interest basis, in oil and natural gas properties. Prior to the sale of substantially all of the assets of our drilling and completion fluids business in January 2010, we provided drilling fluids, completion fluids and related services to oil and natural gas operators. Due to our exit from the drilling and completion fluids business in January 2010, we have presented the results of that operating segment as discontinued operations in this Report. For the three and six months ended June 30, 2010 and 2009, our operating revenues from continuing operations consisted of the following (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2009		2010		2009	
Contract drilling	$ 239,966	79%	$ 101,716	72%	$ 450,711	77%	$ 327,420	80%
Pressure pumping	59,364	19	33,616	24	113,115	20	71,721	18
Oil and natural gas	7,662	2	5,165	4	14,764	3	9,565	2

	$ 306,992	100%	$ 140,497	100%	$ 578,590	100%	$ 408,706	100%

We provide our contract services to oil and natural gas operators in many of the land-based oil and natural gas producing regions of North America. Our contract drilling operations are focused in various regions of Texas, New Mexico, Oklahoma, Arkansas, Louisiana, Mississippi, Colorado, Utah, Wyoming, Montana, North Dakota, Pennsylvania, West Virginia and western Canada, while our pressure pumping services are focused primarily in the Appalachian Basin. The oil and natural gas properties in which we hold interests are primarily located in Texas and New Mexico.

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Generally, the profitability of our business is impacted most by two primary factors in our contract drilling segment: our average number of rigs operating and our average revenue per operating day. During the second quarter of 2010, our average number of rigs operating was 156 compared to 63 in the second quarter of 2009. Our average revenue per operating day was $16,920 in the second quarter of 2010 compared to $17,780 in the second quarter of 2009. We had consolidated net income of $29.5 million for the second quarter of 2010 compared to a consolidated net loss of $17.7 million for the second quarter of 2009. Included in consolidated net income for the second quarter of 2010 was a pre-tax gain on the sale of certain oil and natural gas properties of $20.1 million (approximately $12.9 million net of tax). The remaining increase in consolidated net income was primarily due to our contract drilling segment experiencing an increase in the average number of rigs operating and increases in large fracturing jobs in our pressure pumping segment in the second quarter of 2010 compared to the second quarter of 2009.

Our revenues, profitability and cash flows are highly dependent upon prevailing prices for natural gas and, to a lesser extent, oil. During periods of improved commodity prices, the capital spending budgets of oil and natural gas operators tend to expand, which generally results in increased demand for our contract services. Conversely, in periods when these commodity prices deteriorate, the demand for our contract services generally weakens and we experience downward pressure on pricing for our services. Subsequent to reaching a peak in June 2008, there was a significant decline in oil and natural gas prices and a substantial deterioration in the global economic environment. As part of this deterioration, there was substantial uncertainty in the capital markets and access to financing was reduced. Due to these conditions, our customers reduced or curtailed their drilling programs, which resulted in a decrease in demand for our services, as evidenced by the decline in our monthly average of rigs operating from a high of 283 in October 2008 to a low of 60 in June 2009 before partially recovering to 163 in June 2010. Furthermore, these factors have resulted in, and could continue to result in, certain of our customers experiencing an inability to pay suppliers, including us. We are also highly impacted by competition, the availability of excess equipment, labor issues and various other factors that could materially adversely affect our business, financial condition, cash flows and results of operations. Please see Risk Factors included as Item 1A of Part II of this Report and included as Item 1A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

We believe that our liquidity as of June 30, 2010, which includes approximately $87.2 million in working capital and approximately $199 million available under our $240 million revolving credit facility, together with cash expected to be generated from operations, should provide us with sufficient ability to fund our current plans to build new equipment, make improvements to our existing equipment and pay cash dividends.

On July 2, 2010, we entered into an Asset Purchase Agreement wherein one of our subsidiaries agreed to purchase certain assets and assume certain liabilities from Key Energy Pressure Pumping Services, LLC and Key Electric Wireline Services, LLC relating to the businesses of providing certain pressure pumping services and electric wireline services to participants in the oil and natural gas industry for an approximate aggregate purchase price of $238 million in cash. We also entered into the 364-Day Credit Agreement on July 2, 2010 which is a committed senior unsecured single draw term loan credit facility that permits a borrowing of up to $250 million; provided that the loan must be drawn no later than September 30, 2010 or, if an additional fee is paid, October 30, 2010. The maturity date under the 364-Day Credit Agreement is 364 days after the date on which the closing conditions under the 364-Day Credit Agreement are met.

If we pursue additional opportunities for growth that require capital, we believe we would be able to satisfy these needs through a combination of working capital, cash generated from operations, borrowing capacity under our revolving credit facility or additional debt or equity financing. However, there can be no assurance that such capital will be available on reasonable terms, if at all.

Commitments and Contingencies As of June 30, 2010, we maintained letters of credit in the aggregate amount of $41.2 million for the benefit of various insurance companies as collateral for retrospective premiums and retained losses which could become payable under the terms of the underlying insurance contracts. These letters of credit expire annually at various times during the year and are typically renewed. As of June 30, 2010, no amounts had been drawn under the letters of credit.

As of June 30, 2010, we had commitments to purchase approximately $215 million of major equipment.

Trading and Investing We have not engaged in trading activities that include high-risk securities, such as derivatives and non-exchange traded contracts. We invest cash primarily in highly liquid, short-term investments such as overnight deposits and money market accounts.

Description of Business We conduct our contract drilling operations primarily in Texas, New Mexico, Oklahoma, Arkansas, Louisiana, Mississippi, Colorado, Utah, Wyoming, Montana, North Dakota, Pennsylvania, West Virginia and western Canada. As of June 30, 2010, we had approximately 350 marketable land-based drilling rigs. We provide pressure pumping services to oil and natural gas operators primarily in the Appalachian Basin. These services consist primarily of well stimulation and cementing for

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completion of new wells and remedial work on existing wells. We invest, on a working interest basis, in oil and natural gas properties. Prior to the sale of substantially all of the assets of our drilling and completion fluids business in January 2010, we provided drilling fluids, completion fluids and related services to oil and natural gas operators offshore in the Gulf of Mexico and on land in Texas, New Mexico, Oklahoma and Louisiana. Due to our exit from the drilling and completion fluids business in January 2010, we have presented the results of that operating segment as discontinued operations in this Report.

The North American land drilling industry has experienced periods of downturn in demand over the last decade. During these periods, there have been substantially more drilling rigs available than necessary to meet demand. As a result, drilling contractors have had difficulty sustaining profit margins and, at times, have sustained losses during the downturn periods.

In addition, exploration and development of unconventional resource plays has substantially increased recently and some drilling rigs are not capable of drilling these wells efficiently. Accordingly, the utilization of some older technology drilling rigs may be hampered by their lack of capability to successfully compete for this work. Other ongoing factors which could continue to adversely affect utilization rates and pricing, even in an environment of high oil and natural gas prices and increased drilling activity, include:

- movement of drilling rigs from region to region,
- reactivation of land-based drilling rigs, or
- construction of new drilling rigs.

Construction of new drilling rigs increased significantly during the last ten years. The addition of new drilling rigs to the market coupled with a decrease in demand has resulted in excess capacity. We cannot predict either the future level of demand for our contract drilling services or future conditions in the oil and natural gas contract drilling business.

Critical Accounting Policies

In addition to established accounting policies, our consolidated financial statements are impacted by certain estimates and assumptions made by management. No changes in our critical accounting policies have occurred since the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Liquidity and Capital Resources

As of June 30, 2010, we had working capital of $87.2 million, including cash and cash equivalents of $96.0 million compared to working capital of $264 million and cash and cash equivalents of $49.9 million at December 31, 2009. The decrease in working capital during the six months ended June 30, 2010 was primarily due to capital expenditures and deposits on equipment purchases exceeding operating cash flow.

During the six months ended June 30, 2010, our sources of cash flow included:

- $294 million from operating activities,
- $42.6 million in proceeds from the disposal of our drilling and completion fluids business, and
- $25.2 million in proceeds from the sale of certain oil and natural gas rights and the disposal of other assets.

During the six months ended June 30, 2010, we used $15.4 million to pay dividends on our common stock and $299 million to:

- build new drilling rigs,
- make capital expenditures for the betterment and refurbishment of our drilling rigs,
- acquire and procure drilling equipment and facilities to support our drilling operations,
- fund capital expenditures for our pressure pumping segment, and

fund investments in oil and natural gas properties on a working interest basis.

We paid cash dividends during the six months ended June 30, 2010 as follows:

	Per Share	Total (in thousands)
Paid on March 30, 2010	$ 0.05	$ 7,677
Paid on June 30, 2010	0.05	7,706
Total cash dividends	$ 0.10	$ 15,383

On July 28, 2010, our Board of Directors approved a cash dividend on our common stock in the amount of $0.05 per share to be paid on September 30, 2010 to holders of record as of September 15, 2010. The amount and timing of all future dividend payments, if any, is subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial condition, terms of our credit facilities and other factors.

On August 1, 2007, our Board of Directors approved a stock buyback program, authorizing purchases of up to $250 million of our common stock in open market or privately negotiated transactions. During the six months ended June 30, 2010, we purchased 6,106 shares of our common stock under the program at a cost of approximately $84,000. As of June 30, 2010, we are authorized to purchase approximately $113 million of our outstanding common stock under the program.

We have an unsecured revolving credit facility with a maximum borrowing and letter of credit capacity of $240 million. Interest is paid on the outstanding principal amount of borrowings under the revolving credit facility at a floating rate based on, at our election, LIBOR or a base rate. The margin on LIBOR loans ranges from 3.00% to 4.00% and the margin on base rate loans ranges from 2.00% to 3.00%, based on our debt to capitalization ratio. Any outstanding borrowings must be repaid at maturity on January 31, 2012 and letters of credit may remain in effect up to six months after such maturity date. As of June 30, 2010, we had no borrowings outstanding under the revolving credit facility. We had $41.2 million in letters of credit outstanding at June 30, 2010 and as a result, had available borrowing capacity of approximately $199 million at such date.

There are customary representations, warranties, restrictions and covenants associated with the revolving credit facility. Financial covenants under the revolving credit facility provide for a maximum debt to capitalization ratio and a minimum interest coverage ratio. As of June 30, 2010, the maximum debt to capitalization ratio was 35% and the minimum interest coverage ratio was 3.00 to 1. We were in compliance with these financial covenants as of June 30, 2010. We do not expect that the restrictions and covenants will impair our ability to operate or react to opportunities that might arise.

We believe that the current level of cash, short-term investments and borrowing capacity available under our revolving credit facility, together with cash expected to be generated from operations, should be sufficient to fund our current plans to build new equipment, make improvements to our existing equipment and pay cash dividends.

On July 2, 2010, we entered into an Asset Purchase Agreement wherein one of our subsidiaries agreed to purchase certain assets and assume certain liabilities from Key Energy Pressure Pumping Services, LLC and Key Electric Wireline Services, LLC relating to the business of providing certain pressure pumping services and certain electric wireline services to participants in the oil and natural gas industry for an approximate aggregate purchase price of $238 million in cash. We also entered into the 364-Day Credit Agreement on July 2, 2010 which is a committed senior unsecured single draw term loan credit facility that permits a borrowing of up to $250 million; provided that the loan must be drawn no later than September 30, 2010 or, if an additional fee is paid, October 30, 2010. The maturity date under the 364-Day Credit Agreement is 364 days after the date on which the closing conditions under the 364-Day Credit Agreement are met.

From time to time, opportunities to expand our business, including acquisitions and the building of new equipment, are evaluated. The timing, size or success of any acquisition and the associated capital commitments are unpredictable. If we pursue additional opportunities for growth that require capital, we believe we would be able to satisfy these needs through a combination of working capital, cash generated from operations, borrowing capacity under our revolving credit facility or additional debt or equity financing. However, there can be no assurance that such capital will be available on reasonable terms, if at all.

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Results of Operations

The following tables summarize operations by business segment for the three months ended June 30, 2010 and 2009:

Contract Drilling	**2010**	**2009**	**% Change**
	(Dollars in thousands)		
Revenues	$239,966	$101,716	135.9%
Direct operating costs	$149,303	$ 56,950	162.2%
Selling, general and administrative	$ 920	$ 1,096	(16.1)%
Depreciation	$ 67,644	$ 58,555	15.5%
Operating income (loss)	$ 22,099	$ (14,885)	N/M
Operating days	14,186	5,720	148.0%
Average revenue per operating day	$ 16.92	$ 17.78	(4.8)%
Average direct operating costs per operating day	$ 10.52	$ 9.96	5.6%
Average rigs operating	156	63	147.6%
Capital expenditures	$171,501	$148,447	15.5%

Revenues increased in 2010 compared to 2009 as a result of a significant increase in operating days reduced by the impact of a decrease in average revenue per operating day. Average revenue per operating day decreased in 2010 primarily due to decreases in dayrates for rigs that were operating in the spot market and a smaller proportion of rigs on term contracts which are generally at higher rates. Direct operating costs increased in 2010 compared to 2009 primarily as a result of an increase in the number of operating days. The increase in operating days was due to increased demand largely caused by higher prices for natural gas and oil. Significant capital expenditures were incurred in 2010 and 2009 to build new drilling rigs, to modify and upgrade our drilling rigs and to acquire additional related equipment such as top drives, drill pipe, drill collars, engines, fluid circulating systems, rig hoisting systems and safety enhancement equipment. Depreciation expense increased as a result of capital expenditures.

Pressure Pumping	**2010**	**2009**	**% Change**
	(Dollars in thousands)		
Revenues	$59,364	$33,616	76.6%
Direct operating costs	$41,965	$25,887	62.1%
Selling, general and administrative	$ 2,805	$ 1,939	44.7%
Depreciation	$ 7,888	$ 6,688	17.9%
Operating income (loss)	$ 6,706	$ (898)	N/M
Fracturing jobs	361	326	10.7%
Other jobs	1,496	1,312	14.0%
Total jobs	1,857	1,638	13.4%
Average revenue per fracturing job	$118.13	$ 69.11	70.9%
Average revenue per other job	$ 11.18	$ 8.45	32.3%
Average revenue per total job	$ 31.97	$ 20.52	55.8%
Average direct operating costs per total job	$ 22.60	$ 15.80	43.0%
Capital expenditures	$11,398	$ 6,753	68.8%

Our customers have increased their activities in the development of unconventional reservoirs in the Appalachian Basin resulting in an increase in larger fracturing jobs associated therewith. As a result, we have experienced an increase in the number of larger fracturing jobs as a proportion of the total fracturing jobs we performed. Revenues and direct operating costs increased primarily as a result of the increase in average revenue and direct operating costs per job. Increased average revenue per fracturing job reflects the increase in the proportion of larger fracturing jobs to total fracturing jobs, which was driven by demand for services associated with unconventional reservoirs. Average revenue per other job increased as a result of increased pricing for the services provided and a change in job mix. Average direct operating costs per job increased primarily due to the increase in larger fracturing jobs. Selling, general and administrative expense increased primarily due to additional costs necessary to support increased business activity in 2010. Significant capital expenditures have been incurred in recent years to add capacity. Depreciation expense increased as a result of capital expenditures.

Oil and Natural Gas Production and Exploration	2010	2009	% Change
	(Dollars in thousands, except sales prices)		
Revenues	$ 7,662	$ 5,165	48.3%
Direct operating costs	$ 1,780	$ 1,820	(2.2)%
Depreciation, depletion and impairment	$ 2,955	$ 2,787	6.0%
Operating income	$ 2,927	$ 558	424.6%
Capital expenditures	$ 5,493	$ 1,551	254.2%
Average net daily oil production (Bbls)	902	753	19.8%
Average net daily natural gas production (Mcf)	3,024	3,478	(13.1)%
Average oil sales price (per Bbl)	$ 75.80	$ 57.30	32.3%
Average natural gas sales price (per Mcf)	$ 5.24	$ 3.92	33.7%

Revenues increased due to higher average sales prices of oil and natural gas and increased oil production partially offset by a reduction in natural gas production. Depreciation, depletion and impairment expense in 2010 includes approximately $416,000 incurred to impair certain oil and natural gas properties compared to approximately $600,000 incurred to impair certain oil and natural gas properties in 2009. Capital expenditures increased in 2010 as a result of increases in commodity prices.

Corporate and Other	2010	2009	% Change
	(Dollars in thousands)		
Selling, general and administrative	$ 8,618	$ 8,419	2.4%
Depreciation	$ 296	$ 227	30.4%
Provision for bad debts	$ (1,000)	$ 1,750	N/M
Net gain (loss) on asset disposals	$ 21,939	$ (234)	N/M
Interest income	$ 1,380	$ 204	576.5%
Interest expense	$ 1,383	$ 839	64.8%
Other income	$ 174	$ 12	1,350.0%
Capital expenditures	$ 1,515	$	N/A

The provision for bad debts in 2009 resulted from an increase in our reserve on specific account balances based on the deteriorating economic and credit environment at the time. The negative provision for bad debts in 2010 is the result of collections of certain accounts that had previously been reserved in addition to reductions in our reserve for specific accounts due to improved industry conditions. Gains and losses on the disposal of assets are treated as part of our corporate activities because such transactions relate to corporate strategy decisions of our executive management group. The gain on asset disposals in 2010 includes a gain of $20.1 million related to the sale of certain rights to explore and develop zones deeper than depths that we generally target for certain of the oil and natural gas properties in which we have working interests. Interest income increased due to the collection of interest on a customer account as well as interest received on prior overpayments of sales taxes in certain jurisdictions. Capital expenditures have increased in 2010 due to the ongoing implementation of a new enterprise resource planning system.

The following tables summarize operations by business segment for the six months ended June 30, 2010 and 2009:

Contract Drilling	2010	2009	% Change
	(Dollars in thousands)		
Revenues	$ 450,711	$ 327,420	37.7%
Direct operating costs	$ 284,449	$ 183,271	55.2%
Selling, general and administrative	$ 2,152	$ 2,082	3.4%
Depreciation	$ 133,310	$ 115,941	15.0%
Operating income	$ 30,800	$ 26,126	17.9%

Operating days	27,007	17,193	57.1%
Average revenue per operating day	$ 16.69	$ 19.04	(12.3)%
Average direct operating costs per operating day	$ 10.53	$ 10.66	(1.2)%
Average rigs operating	149	95	56.8%
Capital expenditures	$263,475	$215,449	22.3%

Revenues increased in 2010 compared to 2009 as a result of a significant increase in operating days somewhat reduced by the impact of a decrease in average revenue per operating day. Average revenue per operating day decreased in 2010 primarily due to decreases in dayrates for rigs that were operating in the spot market and a smaller proportion of rigs on term contracts which are generally at higher rates. Revenues in 2009 also included $7.5 million from the early termination of drilling contracts. We recognized no revenues from the early termination of drilling contracts in 2010. Direct operating costs increased in 2010 compared to

2009 primarily as a result of an increase in the number of operating days. The increase in operating days was due to increased demand largely caused by higher prices for natural gas and oil. Significant capital expenditures were incurred in 2010 and 2009 to build new drilling rigs, to modify and upgrade our drilling rigs and to acquire additional related equipment such as top drives, drill pipe, drill collars, engines, fluid circulating systems, rig hoisting systems and safety enhancement equipment. Depreciation expense increased as a result of capital expenditures.

Pressure Pumping	**2010**	**2009**	**% Change**
	(Dollars in thousands)		
Revenues	$ 113,115	$ 71,721	57.7%
Direct operating costs	$ 81,096	$ 56,327	44.0%
Selling, general and administrative	$ 5,346	$ 4,340	23.2%
Depreciation	$ 15,490	$ 12,827	20.8%
Operating income (loss)	$ 11,183	$ (1,773)	N/M
Fracturing jobs	658	745	(11.7)%
Other jobs	2,750	2,705	1.7%
Total jobs	3,408	3,450	(1.2)%
Average revenue per fracturing job	$ 126.09	$ 64.67	95.0%
Average revenue per other job	$ 10.96	$ 8.70	26.0%
Average revenue per total job	$ 33.19	$ 20.79	59.6%
Average direct operating costs per total job	$ 23.80	$ 16.33	45.7%
Capital expenditures	$ 20,811	$ 28,573	(27.2)%

Our customers have increased their activities in the development of unconventional reservoirs in the Appalachian Basin resulting in an increase in larger fracturing jobs associated therewith. As a result, we have experienced an increase in the number of larger fracturing jobs as a proportion of the total fracturing jobs we performed. A decrease in smaller traditional fracturing jobs contributed to the overall decrease in the number of total fracturing jobs. Revenues and direct operating costs increased primarily as a result of the increase in average revenue and direct operating costs per job. Increased average revenue per fracturing job reflects the increase in the proportion of larger fracturing jobs to total fracturing jobs, which was driven by demand for services associated with unconventional reservoirs. Average revenue per other job increased as a result of increased pricing for the services provided and a change in job mix. Average direct operating costs per job primarily increased due to the increase in larger fracturing jobs. Selling, general and administrative expense increased primarily due to additional costs necessary to support increased business activity in 2010. Significant capital expenditures have been incurred in recent years to add capacity. Depreciation expense increased as a result of capital expenditures.

Oil and Natural Gas Production and Exploration	**2010**	**2009**	**% Change**
	(Dollars in thousands, except sales prices)		
Revenues	$14,764	$ 9,565	54.4%
Direct operating costs	$ 3,842	$ 3,796	1.2%
Depreciation, depletion and impairment	$ 5,178	$ 8,767	(40.9)%
Operating income (loss)	$ 5,744	$(2,998)	N/M
Capital expenditures	$11,120	$ 2,521	341.1%
Average net daily oil production (Bbls)	830	817	1.6%
Average net daily natural gas production (Mcf)	3,098	3,493	(11.3)%
Average oil sales price (per Bbl)	$ 75.96	$ 47.74	59.1%
Average natural gas sales price (per Mcf)	$ 5.99	$ 3.96	51.3%

Revenues increased due to higher average sales prices of oil and natural gas partially offset by a reduction in natural gas production. Average net daily natural gas production decreased primarily due to production declines on existing wells. Depreciation, depletion and impairment expense in 2010 includes approximately $670,000 incurred to impair certain oil and natural gas properties compared to approximately $3.1 million incurred to impair certain oil and natural gas properties in 2009. Depletion expense decreased approximately $1.3 million primarily due to lower natural gas production and the impact of impairment charges. Capital expenditures increased in 2010 as a result of increases in commodity prices.

Corporate and Other	2010	2009	% Change
	(Dollars in thousands)		
Selling, general and administrative	$ 16,308	$15,407	5.8%
Depreciation	$ 521	$ 454	14.8%
Provision for bad debts	$ (1,000)	$ 5,750	N/M
Net (gain) loss on asset disposals	$(21,690)	$ 445	N/M
Interest income	$ 1,567	$ 265	491.3%
Interest expense	$ 2,784	$ 1,286	116.5%
Other income	$ 249	$ 35	611.4%
Capital expenditures	$ 3,439	$	N/A

Selling, general and administrative expense increased in 2010 primarily as a result of increased personnel costs. The provision for bad debts in 2009 resulted from an increase in our reserve on specific account balances based on the deteriorating economic and credit environment at the time. The negative provision for bad debts in 2010 is the result of collections of certain accounts that had previously been reserved and reductions in our reserve for certain accounts due to improved industry conditions. Gains and losses on the disposal of assets are treated as part of our corporate activities because such transactions relate to corporate strategy decisions of our executive management group. The gain on asset disposals in 2010 includes a gain of $20.1 million related to the sale of certain rights to explore and develop zones deeper than depths that we generally target for certain of the oil and natural gas properties in which we have working interests. Interest income increased due to the collection of interest on a customer account as well as interest received on prior overpayments of sales taxes in certain jurisdictions. Interest expense increased in 2010 due to the amortization of revolving credit facility issuance costs and increased fees associated with outstanding letters of credit and the unused portion of the revolving credit facility, all resulting from the re-negotiation of our revolving credit facility in March 2009. Capital expenditures have increased in 2010 due to the ongoing implementation of a new enterprise resource planning system.

Income Taxes

On January 1, 2010, we converted our Canadian operations from a Canadian branch to a controlled foreign corporation for Federal income tax purposes. Because the statutory tax rates in Canada are lower than those in the United States, this transaction triggered a $5.1 million reduction in our deferred tax liabilities, which is being amortized as a reduction to deferred income tax expense over the weighted average remaining useful life of the Canadian assets.

As a result of the above conversion, our Canadian assets are no longer subject to United States taxation, provided that the related unremitted earnings are permanently reinvested in Canada. Effective January 1, 2010, we have elected to permanently reinvest these unremitted earnings in Canada, and we intend to do so for the foreseeable future. As a result, no deferred United States Federal or state income taxes have been provided on such unremitted foreign earnings, which totaled approximately $825,000 as of June 30, 2010.

Recently Issued Accounting Standards

In June 2009, the FASB issued a new accounting standard that amends the accounting and disclosure requirements for the consolidation of variable interest entities. This new standard removes the previously existing exception from applying consolidation guidance to qualifying special-purpose entities and requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Before this new standard, generally accepted accounting principles required reconsideration of whether an enterprise is the primary beneficiary of a variable interest entity only when specific events occurred. This new standard is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. This new standard became effective for us on January 1, 2010. The adoption of this standard did not impact our consolidated financial statements.

Volatility of Oil and Natural Gas Prices and its Impact on Operations and Financial Condition

Our revenue, profitability, financial condition and rate of growth are substantially dependent upon prevailing prices for natural gas and oil. For many years, oil and natural gas prices and markets have been extremely volatile. Prices are

affected by market supply and demand factors as well as international military, political and economic conditions, and the ability of OPEC to set and maintain production and price targets. All of these factors are beyond our control.
During 2008, the monthly average market price of natural gas (monthly average Henry Hub price as reported by the Energy Information Administration) peaked in June at $13.06 per Mcf before rapidly declining to an average of $5.99 per Mcf in December. In 2009, the monthly average market price of natural gas

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declined further to a low of $3.06 per Mcf in September. This decline in the market price of natural gas resulted in our customers significantly reducing their drilling activities beginning in the fourth quarter of 2008 and drilling activities remained low throughout 2009. This reduction in demand combined with the reactivation and construction of new land drilling rigs in the United States during the last several years has resulted in excess capacity compared to demand. As a result of these factors, our average number of rigs operating has declined significantly from historic highs. We expect oil and natural gas prices to continue to be volatile and to affect our financial condition, operations and ability to access sources of capital. Low market prices for natural gas and oil would likely result in demand for our drilling rigs decreasing and would adversely affect our operating results, financial condition and cash flows.

The North American land drilling industry has experienced downturns in demand during the last decade. During these periods, there have been substantially more drilling rigs available than necessary to meet demand. As a result, drilling contractors have had difficulty sustaining profit margins and, at times, have incurred losses during the downturn periods.

ITEM 3. ***Quantitative and Qualitative Disclosures About Market Risk***

We currently have exposure to interest rate market risk associated with any borrowings that we have under our revolving credit facility or our 364-Day Credit Agreement. Interest is paid on the outstanding principal amount of borrowings at a floating rate based on, at our election, LIBOR or a base rate. The margin on LIBOR loans ranges from 3.00% to 4.00% and the margin on base rate loans ranges from 2.00% to 3.00%, based on our debt to capitalization ratio. At June 30, 2010, the margin on LIBOR loans would have been 3.00% and the margin on base rate loans would have been 2.00%. As of June 30, 2010, we had no borrowings outstanding under our revolving credit facility. The 364-Day Credit Agreement was entered into on July 2, 2010 and no borrowings were made at that time.

We conduct a portion of our business in Canadian dollars through our Canadian land-based drilling operations. The exchange rate between Canadian dollars and U.S. dollars has fluctuated during the last several years. If the value of the Canadian dollar against the U.S. dollar weakens, revenues and earnings of our Canadian operations will be reduced and the value of our Canadian net assets will decline when they are translated to U.S. dollars. This currency risk is not material to our results of operations or financial condition.

The carrying values of cash and cash equivalents, trade receivables and accounts payable approximate fair value due to the short-term maturity of these items.

ITEM 4. ***Controls and Procedures***

Disclosure Controls and Procedures We maintain disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), designed to ensure that the information required to be disclosed in the reports that we file with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2010.

Changes in Internal Control Over Financial Reporting There were no changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

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PART II OTHER INFORMATION

ITEM 1A. ***Risk Factors***

Environmental Laws and Regulations, Including Violations Thereof, Could Materially Adversely Affect Our Operating Results.

All of our operations and facilities are subject to numerous Federal, state, foreign and local environmental laws, rules and regulations, including, without limitation, laws concerning the containment and disposal of hazardous substances, oil field waste and other waste materials, the use of underground storage tanks, and the use of underground injection wells. The cost of compliance with these laws and regulations could be substantial. A failure to comply with these requirements could expose us to substantial civil and criminal penalties. In addition, environmental laws and regulations in the United States and Canada impose a variety of requirements on responsible parties related to the prevention of oil spills and liability for damages from such spills. As an owner and operator of land-based drilling rigs, we may be deemed to be a responsible party under these laws and regulations.

We are aware of the increasing focus of local, state, national and international regulatory bodies on GHG emissions and climate change issues. We are also aware of legislation proposed by United States lawmakers and the Canadian legislature to reduce GHG emissions, as well as GHG emissions regulations enacted by the U.S. Environmental Protection Agency and the Canadian provinces of Alberta and British Columbia. We will continue to monitor and assess any new policies, legislation or regulations in the areas where we operate to determine the impact of GHG emissions and climate change on our operations and take appropriate actions, where necessary. Any direct and indirect costs of meeting these requirements may adversely affect our business, results of operations and financial condition.

Both the Environmental Protection Agency and Congress are studying whether there is any link between hydraulic fracturing activities and soil or ground water contamination. As part of this study, the House Subcommittee on Energy and Environment sent requests to a number of companies, including one of our subsidiaries, for information on their hydraulic fracturing practices. Our subsidiary has responded to the inquiry. Bills pending in both the House and Senate, if adopted, would require the public disclosure of chemicals used in the fracturing process. It is possible that additional federal, state and local laws and regulations might be imposed on fracturing activities, which could result in increased costs to, and disclosure obligations for us to comply with such potential laws and regulations. In addition, such additional laws and regulations could restrict our ability and otherwise make it more difficult to provide fracturing services in connection with natural gas and oil wells and could have an adverse effect on our results of operation, liquidity and financial condition.

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

The table below sets forth the information with respect to purchases of our common stock made by us during the quarter ended June 30, 2010.

Period Covered	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs		Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)(1)
April 1-30, 2010 (2)	628	$	14.83		$	113,247
May 1-31, 2010		$			$	113,247
June 1-30, 2010 (2)	74,891	$	13.83	6,106	$	113,162
Total	75,519	$	13.84	6,106	$	113,162

(1) On August 2, 2007, we announced that our Board of Directors approved a stock buyback program authorizing purchases of up to $250 million of our common stock in open market or privately negotiated transactions.

(2) We purchased 628 shares in April and 68,785 shares in June from employees to provide the

respective employees with the funds necessary to satisfy their tax withholding obligations with respect to the vesting of restricted shares. The price paid was the closing price of our common stock on the last business day prior to the date the shares vested. These purchases were made pursuant to the terms of the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan and not pursuant to the stock buyback program.

ITEM 6. ***Exhibits***

The following exhibits are filed herewith or incorporated by reference, as indicated:

2.1	Asset Purchase Agreement dated July 2, 2010 by and among Patterson-UTI Energy, Inc., a Delaware corporation, Portofino Acquisition Company, a Delaware corporation, Key Energy Pressure Pumping Services, LLC, a Texas limited liability company, Key Electric Wireline Services, LLC, a Delaware limited liability company, and Key Energy Services, Inc., a Maryland corporation (filed July 6, 2010 as Exhibit 2.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).
3.1	Restated Certificate of Incorporation, as amended (filed August 9, 2004 as Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 and incorporated herein by reference).
3.2	Amendment to Restated Certificate of Incorporation, as amended (filed August 9, 2004 as Exhibit 3.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 and incorporated herein by reference).
3.3	Second Amended and Restated Bylaws (filed August 6, 2007 as Exhibit 3.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 and incorporated herein by reference).

10.1	Third Amendment to the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed April 27, 2010 as Exhibit 10.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).
10.2	Fourth Amendment to the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed April 27, 2010 as Exhibit 10.2 to the Company s Current Report on Form 8-K and incorporated herein by reference).
10.3	Form of Amendment to Cash-Settled Performance Unit Award Agreement Under the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed May 4, 2010 as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 and incorporated herein by reference).
10.4*	Fifth Amendment to the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan.
10.5*	Form of Share-Settled Performance Unit Award Agreement under the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan.
10.6	364-Day Credit Agreement dated July 2, 2010, among Patterson-UTI Energy, Inc., as borrower, and Wells Fargo Bank, N.A., as administrative agent and lender (filed July 6, 2010 as Exhibit 10.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.

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32.1* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101* The following materials from Patterson-UTI Energy, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholders Equity, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

* filed herewith

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SIGNATURE

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.

PATTERSON-UTI ENERGY, INC.

By: /s/ Gregory W. Pipkin

Gregory W. Pipkin

(Principal Accounting Officer and Duly Authorized Officer)

Chief Accounting Officer and Assistant Secretary

DATED: August 2, 2010