

KEY ENERGY SERVICES INC  
Form DEF 14A  
April 03, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Key Energy Services, Inc.**

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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**Table of Contents**

Dear Stockholder:

You are cordially invited to attend the 2013 Annual Meeting of Stockholders of Key Energy Services, Inc. to be held at the Inn at the Ballpark, 1520 Texas Avenue, Houston, Texas at 9:00 a.m. (Central Daylight Time) on Thursday, May 23, 2013.

The notice of meeting and proxy statement that follow this letter describe the business to be conducted at the 2013 Annual Meeting of Stockholders, including the election of four Class I directors.

Your vote is important. Whether or not you plan to attend the 2013 Annual Meeting of Stockholders, we strongly encourage you to provide your proxy by telephone, the Internet or on the enclosed proxy card at your earliest convenience.

Thank you for your cooperation and support.

Sincerely,

Dick Alario

*Chairman of the Board,*

*President and Chief Executive Officer*

**Table of Contents**

**KEY ENERGY SERVICES, INC.**

**1301 McKinney Street**

**Suite 1800**

**Houston, Texas 77010**

**NOTICE OF 2013 ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on May 23, 2013**

To Our Stockholders:

We invite you to our 2013 Annual Meeting of Stockholders, which will be held at the Inn at the Ballpark, 1520 Texas Avenue, Houston, Texas, on Thursday, May 23, 2013 at 9:00 a.m. local time. At the meeting, stockholders will consider and act upon the following matters:

- (1) To elect four Class I directors to serve until the 2016 annual meeting;
- (2) To ratify the selection of Grant Thornton LLP as our independent registered public accounting firm for the current fiscal year;
- (3) To approve, on an advisory basis, the compensation of our own named executive officers as disclosed in these materials; and
- (4) To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors recommends that you vote FOR each of the proposals (1), (2) and (3) above.

Stockholders of record at the close of business on March 11, 2013, the record date for the 2013 Annual Meeting, are entitled to notice of, and to vote at, the meeting. Your vote is important regardless of the number of shares you own. Whether or not you expect to attend the meeting, we hope you will take the time to vote your shares. If you are a stockholder of record, you may vote over the Internet, by telephone or by completing and mailing the enclosed proxy card in the envelope provided. If your shares are held in street name, that is, held for your account by a broker or other nominee, you will receive instructions from the holder of record that you must follow for your shares to be voted.

Our stock transfer books will remain open for the purchase and sale of our common stock.

By Order of the Board of Directors,

Kimberly R. Frye

Corporate Secretary

Houston, Texas

April 3, 2013

**Important Notice Regarding the Availability of Proxy Materials for the 2013 Annual Meeting of Stockholders to Be Held on May 23, 2013:**

**This Proxy Statement, along with the Annual Report to security holders for the fiscal year ended December 31, 2012, are available on our website at [www.keyenergy.com](http://www.keyenergy.com) by clicking on *Investor Relations* and then clicking on *2013 Annual Meeting of Stockholders*.**

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>IMPORTANT INFORMATION ABOUT THE ANNUAL MEETING AND VOTING</u></b>	1
<u>GENERAL INFORMATION</u>	1
<u>DELIVERY OF DOCUMENTS TO SECURITY HOLDERS SHARING AN ADDRESS</u>	5
<u>STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	5
<b><u>PROPOSAL 1 ELECTION OF DIRECTORS</u></b>	8
<u>NOMINEES FOR TERM EXPIRING IN 2016 (CLASS I DIRECTORS)</u>	9
<u>DIRECTORS WHOSE TERM EXPIRES IN 2014 (CLASS II DIRECTORS)</u>	10
<u>DIRECTORS WHOSE TERM EXPIRES IN 2015 (CLASS III DIRECTORS)</u>	11
<u>BOARD RECOMMENDATION</u>	11
<b><u>CORPORATE GOVERNANCE</u></b>	12
<u>GENERAL</u>	12
<u>CORPORATE GOVERNANCE GUIDELINES</u>	12
<u>DIRECTOR INDEPENDENCE</u>	12
<u>BOARD LEADERSHIP STRUCTURE</u>	12
<u>DIRECTOR NOMINATION PROCESS</u>	13
<u>BOARD ROLE IN RISK OVERSIGHT</u>	14
<u>BOARD MEETINGS AND ATTENDANCE</u>	14
<u>DIRECTOR ATTENDANCE AT ANNUAL MEETING OF STOCKHOLDERS</u>	14
<u>BOARD COMMITTEES</u>	14
<u>AUDIT COMMITTEE</u>	14
<u>COMPENSATION COMMITTEE</u>	16
<u>EQUITY AWARD COMMITTEE</u>	17
<u>CORPORATE GOVERNANCE AND NOMINATING COMMITTEE</u>	17
<u>EXECUTIVE COMMITTEE</u>	17
<u>CODE OF BUSINESS CONDUCT AND CODE OF BUSINESS CONDUCT FOR MEMBERS OF THE BOARD OF DIRECTORS</u>	17
<u>REPORT OF THE AUDIT COMMITTEE</u>	18
<u>EXECUTIVE OFFICERS</u>	18
<u>FEES OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	21
<u>AUDIT FEES</u>	21
<u>POLICY FOR APPROVAL OF AUDIT AND NON-AUDIT FEES</u>	21
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	22
<u>TRANSACTIONS WITH RELATED PERSONS</u>	22
<b><u>EXECUTIVE COMPENSATION</u></b>	23
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	23
<u>COMPENSATION OF EXECUTIVE OFFICERS</u>	42
<u>DIRECTOR COMPENSATION</u>	53
<u>COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u>	54
<u>REPORT OF THE COMPENSATION COMMITTEE</u>	54
<b><u>PROPOSAL 2 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u></b>	55
<u>BOARD RECOMMENDATION</u>	55
<b><u>PROPOSAL 3 ADVISORY VOTE ON COMPENSATION OF THE NAMED EXECUTIVE OFFICERS</u></b>	56
<u>BOARD RECOMMENDATION</u>	56
<b><u>OTHER MATTERS</u></b>	57
<u>SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	57
<u>STOCKHOLDER COMMUNICATIONS TO THE BOARD OF DIRECTORS</u>	57
<u>STOCKHOLDER PROPOSALS FOR THE 2014 ANNUAL MEETING</u>	57

**Table of Contents**

**KEY ENERGY SERVICES, INC.**

**1301 McKinney Street**

**Suite 1800**

**Houston, Texas 77010**

**Proxy Statement for the 2013 Annual Meeting of Stockholders**

**To Be Held on May 23, 2013**

This proxy statement contains information about the 2013 Annual Meeting of Stockholders of Key Energy Services, Inc. We are holding the meeting at the Inn at the Ballpark, 1520 Texas Avenue, Houston, Texas, on Thursday, May 23, 2013 at 9:00 a.m., local time.

In this proxy statement, we refer to Key Energy Services, Inc. as Key, the Company, we and us.

We are sending you this proxy statement in connection with the solicitation of proxies by our Board of Directors (the Board) for use at the annual meeting.

We are mailing our 2012 Annual Report to Stockholders for the year ended December 31, 2012 with these proxy materials on or about April 3, 2013.

**IMPORTANT INFORMATION ABOUT THE ANNUAL MEETING AND VOTING**

**General Information**

**Q. Who can vote at the annual meeting?**

**A.** To be able to vote, you must have been a stockholder of record at the close of business on March 11, 2013, the record date for our annual meeting. The number of outstanding shares entitled to vote at the meeting is 152,326,987 shares of common stock.

If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the annual meeting, or any postponements or adjournments of the meeting. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of those shares, which are held in street name, and you will receive instructions from them on how to vote your shares.

**Q. What are the voting rights of the holders of common stock?**

**A.** Each outstanding share of our common stock will be entitled to one vote on each matter considered at the annual meeting.

**Q. What proposals will be voted on at the annual meeting and what are the voting recommendations of the Board of Directors?**

**A.** The proposals that will be presented at the annual meeting and the Board's voting recommendations are set forth in the table below:



**Table of Contents**

Proposal	Board's Voting Recommendation
1. To elect four Class I directors to serve until the 2016 annual meeting	For all nominees
2. To ratify the selection of Grant Thornton LLP as our independent registered public accounting firm for the current fiscal year	For
3. To approve, on an advisory basis, the compensation of our named executive officers as disclosed in these materials	For

**Q. How do I vote?**

**A.** If you are a record holder, meaning your shares are registered in your name, you may vote:

(1) **Over the Internet:** Go to the website of our tabulator, American Stock Transfer & Trust Company, at [www.voteproxy.com](http://www.voteproxy.com). Use the vote control number printed on your enclosed proxy card to access your account and vote your shares. You must specify how you want your shares voted or your Internet vote cannot be completed and you will receive an error message. Your shares will be voted according to your instructions.

(2) **By Telephone:** Call 1-800-Proxies (1-800-776-9437) toll free from the United States or 1-718-921-8500 from foreign countries from any touch-tone telephone, and follow the instructions on your enclosed proxy card. You must specify how you want your shares voted and confirm your vote at the end of the call or your telephone vote cannot be completed. Your shares will be voted according to your instructions.

(3) **By Mail:** Complete and sign your enclosed proxy card and mail it in the enclosed postage prepaid envelope. Your shares will be voted according to your instructions. If you sign and return your proxy card but do not specify how you want your shares voted, they will be voted as recommended by the Board.

(4) **In Person at the Meeting:** If you attend the meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which we will provide to you at the meeting.

If your shares are held in street name, meaning they are held for your account by a broker or other nominee, you may vote:

(1) **Over the Internet or by Telephone:** You will receive instructions from your broker or other nominee stating if they permit Internet or telephone voting and, if they do, explaining how to do so. You should follow those instructions.

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**Table of Contents**

(2) **By Mail:** You will receive instructions from your broker or other nominee explaining how you can vote your shares by mail. You should follow those instructions.

(3) **In Person at the Meeting:** You must contact your broker or other nominee who holds your shares to obtain a brokers' proxy card and bring it with you to the meeting. **You will not be able to vote in person at the meeting unless you have a proxy from your broker issued in your name giving you the right to vote your shares.**

**Q. Can I change my vote?**

**A.** Yes. You may revoke your proxy and change your vote at any time before the meeting. To revoke your proxy and change your vote, you must do one of the following:

- (1) Vote over the Internet or by telephone as instructed above. Only your latest Internet or telephone vote is counted.
- (2) Sign a new proxy and submit it as instructed above. Only your latest dated proxy will be counted.
- (3) Attend the meeting, request that your proxy be revoked and vote in person as instructed above. Attending the meeting will not revoke your proxy unless you specifically request it.

**Q. Will my shares be voted**

**A.** If your shares are registered directly in your name, your shares will not be voted if you do not vote over the Internet, by telephone, by returning your proxy or voting by ballot at the meeting.

**if I don't return my proxy?**

If you hold your shares in street name, your brokerage firm may be able to vote your shares for certain routine matters, even if you do not return your proxy. Only Proposal 2, ratification of Grant Thornton LLP as our independent registered public accounting firm for the current fiscal year, is considered a routine matter. Your broker may not vote on non-routine matters without instructions from you. If you do not give your broker instructions on how to vote your shares on a non-routine matter, the broker will return the proxy card without voting on that proposal. This is called a broker non-vote.

We encourage you to provide voting instructions to your brokerage firm by giving your proxy to them. This ensures that your shares will be voted at the meeting according to your instructions. You should receive directions from your brokerage firm about how to submit your proxy to them at the time you receive this proxy statement.

**Q. How many shares must  
be present to hold the meeting?**

**A.** A majority of our outstanding shares of common stock must be present at the meeting to hold the meeting and conduct business. This is called a quorum. For purposes of determining whether a quorum exists, we count as present any shares that are voted over the Internet, by telephone or by completing and submitting a proxy, or that are represented in person at the meeting. Further, for purposes of establishing a quorum, we will count as present shares that a stockholder holds even if the stockholder votes to abstain or does not vote on one or more of the matters to be voted upon. Broker non-votes, described above, will be counted for purposes of determining whether a quorum is present at the meeting.

**Table of Contents**

If a quorum is not present, we expect to adjourn the meeting until we obtain a quorum.

**Q. What vote is required to**

**approve each matter and how are  
votes counted?**

**A. Proposal 1 Election of Four Class I Directors**

Since it is an uncontested election, each nominee for director must receive more votes FOR such nominee's election than votes AGAINST such nominee's election. As mentioned above, Proposal 1, the election of directors, is not considered a routine matter. Therefore, if your shares are held by your broker in street name, and you do not vote your shares, your brokerage firm cannot vote your shares on Proposal 1. Those broker non-votes, and abstentions, are not counted for purposes of electing directors and they will not affect the results of the vote.

You may:

vote FOR a nominee;

vote AGAINST a nominee; or

ABSTAIN from voting on one or more nominees.

**Proposal 2 Ratification of Selection of Independent Registered Public Accounting Firm**

To approve Proposal 2, stockholders holding a majority of the votes cast on the matter must vote FOR the proposal. If your shares are held by your broker in street name, and you do not vote your shares, your brokerage firm may vote your unvoted shares on Proposal 2. If you vote to ABSTAIN on Proposal 2, your shares will not be voted in favor of or against the proposal and will also not be counted as votes cast on the proposal. As a result, voting to ABSTAIN will have no effect on the voting on this proposal.

Although stockholder approval of our Audit Committee's selection of Grant Thornton LLP as our independent registered public accounting firm is not required, we believe that it is advisable to give stockholders an opportunity to ratify this selection. If this proposal is not approved at the annual meeting, our Audit Committee will review its future selection of Grant Thornton LLP in light of that voting result.

**Proposal 3 Advisory Vote on Compensation of the Named Executive Officers**

Although on the ballot, this is only a non-binding advisory vote. This means that the Board will not be required to take any action on this matter regardless of the number of shares voted in favor of or against Proposal 3. However, our Board wants to understand the view of our stockholders on the Company's executive compensation program, so your consideration and vote on this matter will be taken seriously by our Board. The votes that stockholders cast FOR Proposal 3 must exceed the number of votes that stockholders cast AGAINST Proposal 3 in order for Proposal 3 to pass.



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**Table of Contents**

- Q. Are there other matters to be voted on at the meeting?**      **A.** We do not know of any matters that may come before the meeting other than the election of four Class I directors, the ratification of the selection of our independent registered public accounting firm and the advisory vote on our executive compensation. If any other matters are properly presented to the meeting, the persons named in the accompanying proxy intend to vote, or otherwise act, in accordance with their judgment on the matter.
- Q. Where can I find the voting results?**      **A.** We will report the voting results in a Current Report on Form 8-K filed with the Securities and Exchange Commission, or SEC, within four business days after the conclusion of the annual meeting. If the official voting results are not available at that time, we will provide preliminary voting results in the Form 8-K and will provide the final voting results in an amendment to the Form 8-K as soon as they become available.
- Q. What are the costs of soliciting these proxies?**      **A.** We will bear the cost of soliciting proxies. In addition to these proxy materials, our directors, officers and employees may solicit proxies by telephone, e-mail, facsimile or in person, without additional compensation. In addition, we have retained Alliance Advisors, L.L.C. to solicit proxies by mail, courier, telephone and facsimile and to request brokers, custodians and fiduciaries to forward proxy soliciting materials to the owners of the stock held in their names. For these services, we will pay a fee of \$7,000 plus expenses. Upon request, we will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for distributing proxy materials.

**Delivery of Documents to Security Holders Sharing an Address**

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of our Proxy Statement or Annual Report to Stockholders may have been sent to multiple stockholders in your household, unless we have received contrary instructions. We will promptly deliver a separate copy of either document to you if you request it by writing to or calling us at the following address or telephone number: 1301 McKinney Street, Suite 1800, Houston, Texas 77010, Attention: Investor Relations; (713) 651-4300. If you want to receive separate copies of our Proxy Statement or Annual Report to Stockholders in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address and telephone number.

**Stock Ownership of Certain Beneficial Owners and Management**

This section provides information about the beneficial ownership of our common stock by our directors and executive officers. The number of shares of our common stock beneficially owned by each person is determined under the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares that the individual has the right to acquire within 60 days through the exercise of any stock options or other rights. Unless otherwise indicated, each person has sole investment and voting power, or shares such power with his or her spouse, with respect to the shares set forth in the following table. The inclusion in this table of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of those shares.

The address for each person identified below is care of Key Energy Services, Inc., 1301 McKinney Street, Suite 1800, Houston, Texas 77010.

**Table of Contents**

Throughout this proxy statement, the individuals who served as our Principal Executive Officer and Principal Financial Officer during fiscal year 2012, and each of our three other most highly compensated executive officers in fiscal year 2012, are referred to as the Named Executive Officers or NEOs.

Set forth below is certain information with respect to beneficial ownership of our common stock as of March 11, 2013 by each of our NEOs and each of our directors, as well as the directors and all executive officers as a group:

Name of Beneficial Owner	Number of Shares(1)	Percentage of Outstanding Shares(2)
Richard J. Alario(3)	1,675,698	1.10%
Lynn R. Coleman	63,088	*
Kevin P. Collins(4)	102,012	*
William D. Fertig(5)	144,926	*
W. Phillip Marcum(6)	172,012	*
Ralph S. Michael, III(7)	105,809	*
William F. Owens	52,311	*
Robert K. Reeves	63,792	*
J. Robinson West(8)	65,194	*
Arlene M. Yocum	63,088	*
Kim B. Clarke(9)	328,925	*
Kimberly R. Frye(10)	355,946	*
T. M. Whichard III(11)	461,643	*
Newton W. Wilson III(12)	734,004	*
Current Directors and Executive Officers as a group (20 persons, including the persons listed above)(13)	4,887,735	3.21%

\* Less than 1%

- (1) Includes all shares with respect to which each director or executive officer directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares the power to vote or to direct voting of such shares and/or the power to dispose or to direct the disposition of such shares. Includes shares that may be purchased under stock options that are exercisable currently or within 60 days after March 11, 2013.
- (2) An individual's percentage ownership of common stock outstanding is based on 152,326,987 shares of our common stock outstanding as of March 11, 2013. Shares of common stock subject to stock options currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of the percentage ownership of the person holding such securities but are not deemed outstanding for computing the percentage ownership of any other person.
- (3) Includes 431,000 shares issuable upon the exercise of vested options. Also includes 476,687 shares of restricted stock that have not vested.
- (4) Includes 10,000 shares of common stock issuable upon the exercise of vested options.
- (5) Includes 10,000 shares of common stock issuable upon the exercise of vested options.
- (6) Includes 10,000 shares of common stock issuable upon the exercise of vested options.

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- (7) Includes 2,000 shares held jointly with Mr. Michael s spouse.
- (8) Includes 10,000 shares of common stock issuable upon the exercise of vested options.
- (9) Includes 153,742 shares of restricted stock that have not vested.
- (10) Includes 76,825 shares of common stock issuable upon the exercise of vested options. Also includes 130,513 shares of restricted stock that have not vested.
- (11) Includes 232,001 shares of restricted stock that have not vested.
- (12) Includes 197,250 shares of common stock issuable upon the exercise of vested options. Also includes 225,000 shares of restricted stock that have not vested.
- (13) Includes 787,075 shares of common stock issuable upon the exercise of vested options. Also includes 1,534,036 shares of restricted stock that have not vested.

**Table of Contents**

The following table sets forth, as of March 11, 2013, certain information regarding the beneficial ownership of common stock by each person, other than our directors or executive officers, who is known by us to own beneficially more than 5% of the outstanding shares of our common stock.

Name and Address of Beneficial Owner	Shares Beneficially Owned	
	Number	Percent(1)
MHR Fund Management LLC(2) 40 West 57 <sup>th</sup> Street, 24 <sup>th</sup> Floor New York, NY 10019	17,474,343	11.47%
BlackRock, Inc.(3) 40 East 52nd Street New York, NY 10022	9,685,543	6.36%
The Vanguard Group, Inc.(4) 100 Vanguard Blvd. Malvern, PA 19355	7,758,882	5.09%

- (1) The percentage ownership of common stock outstanding is based on 152,326,987 shares of our common stock outstanding as of March 11, 2013.
- (2) As reported on Amendment No. 6 to Schedule 13G/A filed with the SEC on February 14, 2013 on behalf of MHR Institutional Partners III LP, MHR Institutional Advisors III LLC, MHR Fund Management LLC, MHR Holdings LLC and Mark H. Rachesky, M.D. relating to an aggregate amount of 17,474,343 shares held for the accounts of MHR Institutional Partners II LP, MHR Institutional Partners IIA LP and MHR Institutional Partners III LP.
- (3) As reported on Amendment No. 4 to Schedule 13G/A filed with the SEC on February 5, 2013 by BlackRock, Inc. relating to the sole voting and disposition power over an aggregate amount of 9,685,543 shares held by BlackRock, Inc.
- (4) As reported on Schedule 13G filed with the SEC on February 13, 2013 by The Vanguard Group, Inc. relating to an aggregate amount of 7,758,882 shares beneficially owned by The Vanguard Group, Inc.

**Stock Ownership Guidelines**

We believe that the ownership of our stock by our executive officers and directors aligns their interests with those of our stockholders. Accordingly, the Board adopted stock ownership guidelines in August 2011, as amended in August 2012, that require our CEO, Board members, and Executive Officers who are direct reports to our CEO or Chief Operating Officer to own shares of common stock at least equal in value to the following multiples of base salary or annual retainer (as applicable) by the later of December 31, 2016 or at the end of five years of continuous service:

Title

Stock Ownership Guideline



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Chief Executive Officer Six times annual base salary

Direct Reports of Chief Executive Officer or  
Chief Operating Officer Three times annual base salary

Non-executive Board Member Three times annual retainer

For purposes of calculating share ownership levels required by these guidelines, we do not include unexercised stock options, cash-based performance units or jointly-held stock. Stock ownership levels are calculated at year-end using the 12-month volume weighted average price of the Company's common stock.

**Table of Contents**

**PROPOSAL 1 ELECTION OF DIRECTORS**

Our Board is divided into three classes. One class is elected each year and members of each class hold office for three-year terms. The Board has set the number of directors at ten. There are four Class I directors, three Class II directors and three Class III directors. At this year's annual meeting, the terms of our Class I directors will expire. The Class I directors elected at this year's annual meeting will serve three-year terms expiring at the annual meeting in 2016, until their successors are elected and qualified, or the earlier of their death, resignation or removal. The Class II and Class III directors will serve until the annual meetings of stockholders to be held in 2014 and 2015, respectively, until their respective successors are elected and qualified, or the earlier of their death, resignation or removal.

If you execute and return the enclosed proxy card, the proxies named therein will vote to elect as Class I directors Lynn R. Coleman, Kevin P. Collins, W. Phillip Marcum and William F. Owens, unless you indicate on your proxy card that your shares should be voted against one or more of the nominees or abstain from voting in the election of one or more of the nominees. Our Corporate Governance and Nominating (CGN) Committee has recommended, and the Board has nominated, each of the nominees for election as Class I directors. Each of the nominees is currently a member of the Board and was previously elected to the Board at the annual meeting of stockholders held in 2010.

Each of the nominees has indicated his or her willingness to serve, if elected. However, if any nominee should be unable to serve, the shares of common stock represented by proxies may be voted for a substitute nominee designated by the Board.

There are no family relationships between or among any of our officers and our directors. Ralph S. Michael, III, a Class III director, serves on the advisory board of a firm that provided consulting services to us during 2012. Robert K. Reeves, a Class II director, is an executive officer of one of our customers. For additional information regarding these relationships, see the discussion below under the heading *Certain Relationships and Related Party Transactions* under *Corporate Governance*.

Director nominees are elected by a relative majority vote in uncontested director elections. Under this voting standard, in order to be elected in an uncontested election, our bylaws require that a director nominee must receive more votes cast for such nominee's election than votes cast against such nominee's election. Under our Corporate Governance Guidelines, as a condition to being nominated, each incumbent director is required to submit an irrevocable letter of resignation that will become effective if stockholders do not re-elect the director and the Board determines to accept the resignation. If an incumbent director is not re-elected, our CGN Committee will recommend to the Board the action to be taken with respect to such director's resignation. The Board will act on the CGN Committee's recommendation, and publicly disclose its decision and the rationale behind its decision, within 90 days after the date the election results are certified. Pending the determination of the Board and the CGN Committee, the director may remain active and engaged in Board activities, other than with respect to any deliberations or voting regarding whether to accept or reject his or her resignation.

Below are the names, ages and certain other information of each nominee for election as a Class I director and each other member of our Board, including information each director has given us about all positions he or she holds, his or her principal occupation and business experience for the past five years and the names of other publicly held companies of which he or she currently serves as a director or has served as a director during the past five years. In addition to the information presented below regarding each director's specific experience, qualifications, attributes and skills that led our Board to the conclusion that he or she should serve as a director, we also believe that all of our directors exhibit high standards of integrity, honesty and ethical values. Information with respect to the number of shares of common stock beneficially owned by each director as of March 11, 2013 appears above under the heading *Stock Ownership of Certain Beneficial Owners and Management*.

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**Table of Contents****Nominees for Term Expiring in 2016 (Class I Directors)**

**Lynn R. Coleman**, age 73, has been a member of the Board since October 2007. As a partner in the firm of Skadden, Arps, Slate, Meagher and Flom LLP, Mr. Coleman founded and led the firm's energy practice for 20 years. He retired from the Skadden partnership in 2007. Prior to joining Skadden, Mr. Coleman served as the General Counsel of the U.S. Department of Energy and later as Deputy Secretary. From March 2008 through April 2010, Mr. Coleman served on the Supervisory Board of Lyondell Basell Industries, a large chemical company with operations in the U.S. and abroad. In May 2008, he also was appointed to the board of directors (non-executive Chair) of Total Holdings USA, Inc., a U.S. subsidiary of a large international oil company. In June 2010, Mr. Coleman was appointed to the board of directors of Defense Group Inc., a privately-owned corporation involved in defense and national security contracts, headquartered in Vienna, Virginia. In December 2012, Mr. Coleman was appointed to the board of directors of Standard Solar, Inc., a privately held corporation involved in development and installation of solar systems at the residential, commercial and municipal level. In 2007 and 2008, he was a lecturer at the University of Virginia School of Law, offering a seminar on energy and environmental law. He has also been appointed adjunct professor at the University of Texas School of Law offering a similar seminar. He holds an LLB degree from the University of Texas and a BA from Abilene Christian College. We believe Mr. Coleman's qualifications to serve on our Board include his extensive experience practicing law in the energy industry, including his 20 years as a senior partner and leader of the energy practice at a prominent global law firm. He has wide ranging experience with energy transactions, litigation, government policy and regulation, in the U.S. and other countries. He has also served as managing partner and in similar management positions over other large groups of attorneys. His responsibilities in this capacity included decisions concerning strategic planning, hiring, partnership advancement, attorney evaluations, direction of work of other attorneys and management of client relationships.

**Kevin P. Collins**, age 62, has been a member of the Board since March 1996. He has been Managing Member of The Old Hill Company LLC since 1997, a company he founded that provides corporate finance and management consulting services. From 1992 to 1997, he served as a principal of JHP Enterprises, Ltd., and from 1985 to 1992, as Senior Vice President of DG Investment Bank, Ltd., both of which were engaged in providing corporate finance and advisory services. Mr. Collins was a director of WellTech, Inc. from January 1994 until March 1996, when WellTech was merged into Key. Mr. Collins was also a director of Applied Natural Gas Fuels, Inc. from November 2008 until October 2012. Mr. Collins is also a director of PowerSecure International, Inc. and Antioch Company LLC. He holds BS and MBA degrees from the University of Minnesota. Mr. Collins is a CFA Charterholder. We believe Mr. Collins' qualifications to serve on our Board include his extensive knowledge of Key and our industry, his analytical business background, his experience working on strategic transactions, as well as his lending and advisory experience with large financial institutions and his extensive experience serving on boards of directors, including his service on our and other companies' audit committees.

**W. Phillip Marcum**, age 69, has been a member of the Board since March 1996. He was a director of WellTech, Inc. from January 1994 until March 1996, when WellTech was merged into Key. From October 1995 until March 1996, Mr. Marcum was the non-executive Chairman of the Board of WellTech. Previously, from January 1991 until April 2007, when he retired, he was Chairman of the Board, President and Chief Executive Officer of PowerSecure International, Inc. (formerly known as Metrotek Technologies, Inc., and prior to that, known as Marcum Natural Gas Services, Inc.). Mr. Marcum also serves as Chairman of the Board of ADA-ES, a Denver, Colorado based company, and Chairman of the Board of Applied Natural Gas Fuels, Inc. (formerly PNG Ventures, Inc.), a West Lake Village, California based company. Mr. Marcum has recently been elected to the Board of Directors of Recovery Energy, Inc., a Denver, Colorado based exploration and production company. He is presently a principal in MG Advisors, LLC. He holds a BBA from Texas Tech University. We believe Mr. Marcum's qualifications to serve on our Board include his experience serving on other public companies' boards of directors and his extensive business knowledge working with other public companies in the energy industry, including his founding and running of Marcum Natural Gas Services, Inc., which has since grown into a public company known as PowerSecure International, Inc.

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**Table of Contents**

**William F. Owens**, age 62, has been a member of the Board since January 2007. He served as Governor of Colorado from 1999 to 2007, as Colorado State Treasurer from 1995 to 1999, and, prior to that, as a Colorado State legislator. Before his public service, Mr. Owens was on the consulting staff at Touche Ross & Co. (now Deloitte & Touche, LLP) and served as Executive Director of the Colorado Petroleum Association, which represented more than 400 energy firms doing business in the Rocky Mountains region. Currently, he is a Managing Director of Renew Strategies LLC, a Denver-based land and water development firm. Mr. Owens serves on the boards of Cloud Peak Energy Inc., Federal Signal Corporation and Bill Barrett Corporation. Previously, from 2007 through 2009, he served on the board of Highlands Acquisition Corp., and from 2009 through 2011, he served on the board of Keating Capital, Inc. Mr. Owens holds a masters degree in Public Affairs from the University of Texas at Austin and earned his Bachelor of Science at Stephen F. Austin State University. He is also a Senior Fellow at the University of Denver's Institute for Public Policy Studies. We believe Mr. Owens' qualifications to serve on our Board include his wide-ranging background and experience in business, public policy, management and energy.

**Directors Whose Term Expires in 2014 (Class II Directors)**

**William D. Fertig**, age 56, has been a member of the Board since April 2000. He has been Co-Chairman and Chief Investment Officer of Context Capital Management, an investment advisory firm, since 2002. He serves as trustee for ProFunds and ProShares. From 1990 through April 2002, Mr. Fertig was a Principal and a Senior Managing Director of McMahan Securities, a broker dealer firm specializing in convertible securities, high-yield and derivative securities. Mr. Fertig previously served in various senior capacities at Drexel Burnham Lambert and Credit Suisse First Boston from 1980 through 1990. He holds a BS from Allegheny College and an MBA from the Stern Business School of New York University. We believe Mr. Fertig's qualifications to serve on our Board include his investment and market expertise.

**Robert K. Reeves**, age 55, has been a member of the Board since October 2007. He is Senior Vice President, General Counsel and Chief Administrative Officer of Anadarko Petroleum Corporation, an independent oil and gas exploration and production company. From 2004 to February 2007, Mr. Reeves served as Senior Vice President, Corporate Affairs & Law and Chief Governance Officer of Anadarko. Prior to joining Anadarko, he served as Executive Vice President, Administration and General Counsel of North Sea New Ventures from 2003 to 2004, and as Executive Vice President, General Counsel and Secretary of Ocean Energy, Inc. and its predecessor companies from 1997 to 2003, both energy exploration and production companies. Since 2008, Mr. Reeves has served as a director of Western Gas Holdings, LLC, a subsidiary of Anadarko and general partner of Western Gas Partners, LP. Since 2012, Mr. Reeves has also served as a director of Western Gas Equity Holdings, LLC, a subsidiary of Anadarko and general partner of Western Gas Equity Partners, LP. He holds a BA and JD from Louisiana State University. We believe Mr. Reeves' qualifications to serve on our Board include his experience in both legal and business matters as well as his upstream exploration and production experience.

**J. Robinson West**, age 66, has been a member of the Board since November 2001. He is the founder and Chairman of PFC Energy, strategic advisers to international oil and gas companies, national oil companies, and petroleum ministries. Previously, Mr. West served as U.S. Assistant Secretary of the Interior with responsibility for offshore oil leasing policy from 1981 through 1983. He was Deputy Assistant Secretary of Defense for International Economic Affairs from 1976 through 1977 and a member of the White House Staff from 1974 through 1976. He is currently a member of the Council on Foreign Relations and the National Petroleum Council, a member of the Secretary of Energy Advisory Board, and serves as Chairman of the Board of the United States Institute of Peace. Mr. West is also a director of Magellan Petroleum Corporation and Stewart & Stevenson LLC. He holds a BA from the University of North Carolina at Chapel Hill and a JD from Temple University Law School. We believe Mr. West's qualifications to serve on our Board include his extensive industry knowledge as well as his knowledge of legal matters by virtue of his training as an attorney.

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**Table of Contents**

**Directors Whose Term Expires in 2015 (Class III Directors)**

**Richard J. Alario**, age 58, has been a member of the Board since May 2004. Mr. Alario joined Key as President and Chief Operating Officer effective January 1, 2004. On May 1, 2004, he was promoted to Chief Executive Officer and appointed to the Board. He was elected Chairman of the Board on August 25, 2004. Prior to joining Key, Mr. Alario was employed by BJ Services Company, an oilfield services company, where he served as Vice President from May 2002 after OSCA, Inc. was acquired by BJ Services. Prior to joining BJ Services, Mr. Alario had over 21 years of service in various capacities with OSCA, an oilfield services company, most recently having served as its Executive Vice President. He currently serves as vice chairman, chairman elect, director and executive committee member of the National Ocean Industries Association. He is also a director of Kirby Corporation and serves on its Audit Committee. He is a member of the Louisiana State University Forever LSU Foundation, a member of the Petroleum Equipment Suppliers Association, and a member of the American Association of Drilling Engineers. Mr. Alario holds a BA from Louisiana State University. We believe Mr. Alario's qualifications to serve on our Board include his extensive experience of over 30 years in the oilfield services business, including his service as Key's President and Chief Executive Officer.

**Ralph S. Michael, III**, age 58, has been a member of the Board since March 2003. He has served as President and Chief Executive Officer of Fifth Third Bank, Cincinnati Region, since December 2010. Mr. Michael was President and Chief Operating Officer of the Ohio Casualty Insurance Company from July 2005 until its sale in August 2007. From 2004 through July 2005, Mr. Michael served as Executive Vice President and Manager of West Commercial Banking for U.S. Bank, National Association and then as Executive Vice President and Manager of Private Asset Management for U.S. Bank. He also served as President of U.S. Bank Oregon from 2003 to 2005. From 2001 to 2002, he served as Executive Vice President and Group Executive of PNC Financial Services Group, with responsibility for PNC Advisors, PNC Capital Markets and PNC Leasing. He is a director of AK Steel Corporation, FBR & Co., Arlington Asset Investment Corporation, Cincinnati Bengals, Inc., and Xavier University. Previously, he served as a director for Integrated Alarm Services Group, Inc. from 2003 to 2007 and for Ohio Casualty Corporation from 2002 to 2005. He holds a BA from Stanford University and an MBA from the Graduate School of Management of the University of California Los Angeles. We believe Mr. Michael's qualifications to serve on our Board include the broad business and finance background obtained through his more than 30 years experience working in financial services, much of which has been in executive management positions, as well as his extensive experience as a corporate board member, including his service on our and other companies' audit committees, all of which led to his designation as an audit committee financial expert.

**Arlene M. Yocum**, age 55, has been a member of the Board since October 2007. Ms. Yocum has been Executive Vice President, Managing Executive of Client Service and Distribution for PNC's Asset Management Group since 2003. Prior to that, she served as an Executive Vice President of PNC's Institutional Investment Group from 2000 to 2003. Ms. Yocum was a director of Protection One, Inc until 2010. She holds a JD from Villanova School of Law and a BA from Dickinson College. We believe Ms. Yocum's qualifications to serve on our Board include her extensive business experience, including her investment and finance expertise and her designation as an audit committee financial expert, as well as her knowledge of legal matters by virtue of her training as an attorney.

**Board Recommendation**

**The Board of Directors believes that approval of the election of Lynn R. Coleman, Kevin P. Collins, W. Phillip Marcum and William F. Owens to serve as Class I directors is in the best interests of the Company and of our stockholders and therefore recommends a vote FOR each of the nominees.**

## **Table of Contents**

### **CORPORATE GOVERNANCE**

#### **General**

This section describes our principal corporate governance guidelines and practices. Complete copies of our Corporate Governance Guidelines, committee charters and codes of business conduct described below are available on our website at [www.keyenergy.com](http://www.keyenergy.com). Alternatively, you can request a copy of any of these documents by writing to: Investor Relations, Key Energy Services, Inc., 1301 McKinney Street, Suite 1800, Houston, Texas 77010. Our Board strongly believes that good corporate governance is important to ensure that Key is managed for the long-term benefit of our stockholders.

#### **Corporate Governance Guidelines**

Our Board has adopted Corporate Governance Guidelines that address significant issues of corporate governance and set forth the procedures by which the Board carries out its responsibilities. Among the areas addressed by the Corporate Governance Guidelines are director qualifications and responsibilities, Board committee responsibilities, holdover directors, director compensation and tenure, director orientation and continuing education, access to management and independent advisors, succession planning and management development, and Board and committee performance evaluations. The CGN Committee is responsible for assessing and periodically reviewing the adequacy of these guidelines and recommending proposed changes to the Board, as appropriate. The Corporate Governance Guidelines are posted on our website at [www.keyenergy.com](http://www.keyenergy.com). We will provide these guidelines in print, free of charge, to stockholders who request them.

#### **Director Independence**

Under applicable rules of the New York Stock Exchange ( NYSE ), a director will only qualify as independent if our Board affirmatively determines that he or she has no direct or indirect material relationship with Key. In addition, all members of the Audit Committee, Compensation Committee and CGN Committee are required to meet the applicable independence requirements set forth in the rules of the NYSE and the SEC.

The Board has determined that, except for Mr. Alario, who serves as our President and CEO, each of our current directors is independent within the meaning of the foregoing rules. The Board considered Mr. Reeves' position as an executive officer with one of our customers, Anadarko Petroleum Corporation, and determined that the relationship between Anadarko and Key does not affect Mr. Reeves' independence. The Board considered Mr. West's position as director of one of our suppliers, Stewart & Stevenson LLC, and determined that the relationship between Stewart & Stevenson and Key does not affect Mr. West's independence. The Board considered Mr. Michael's role on the United States Advisory Board of Alexander Proudfoot, a practice of Management Consulting Company PLC, and determined that the relationship between Proudfoot and Key does not affect Mr. Michael's independence. For additional information regarding the relationships of Messrs. Reeves and Michael, see the discussion below under the heading *Certain Relationships and Related Party Transactions*.

#### **Board Leadership Structure**

We operate under a leadership structure in which our CEO also serves as Chairman of the Board. Our Board consists of Mr. Alario, the CEO and Chairman of the Board, and nine other directors. Our Corporate Governance Guidelines provide that, unless the Chairman of the Board is an independent director, the Board will select a Lead Director from among the independent directors to act as a liaison between the non-employee directors and management, chair the executive sessions of non-employee directors and consult with the Chairman of the Board on agendas for Board meetings and other matters. The Board has selected Mr. Michael as Lead Director. Our Corporate Governance Guidelines also provide that non-employee directors will meet in executive session on a regular basis without management present.

## **Table of Contents**

As described further below under *Board Committees*, we have five standing committees the Audit Committee, the Compensation Committee, the Equity Award Committee, the CGN Committee and the Executive Committee. Other than the Executive Committee and the Equity Award Committee, on which Mr. Alario serves, each of the Board committees consists solely of independent directors, and each committee has a separate chair.

We believe that we are well-served by this leadership structure, which is a configuration commonly utilized by other public companies in the United States. We have a single leader for Key who sets the tone and has primary responsibility for our operations. We believe this structure provides clear leadership, not only for Key, but for our Board. General oversight of the business operations is provided by experienced independent directors with an independent Lead Director and separate committee chairs. We believe that having a combined Chairman / CEO, independent chairs for each of our Board committees (other than the Equity Award Committee and the Executive Committee) and an independent Lead Director provides the right form of leadership for Key and our stockholders.

Nevertheless, our Board believes that no single organizational model will provide the most effective leadership structure in all circumstances. Accordingly, the Board may periodically consider whether the offices of CEO and Chairman should continue to be combined and who should serve in such capacities, and it retains the authority to separate the positions of CEO and Chairman if it deems appropriate in the future.

### **Director Nomination Process**

In considering whether to recommend a particular candidate for inclusion in the Board's slate of recommended director nominees, our CGN Committee applies the criteria set forth in the guidelines contained in the Selection Process for New Director Candidates, which are available in the *Corporate Governance* section of our website, [www.keyenergy.com](http://www.keyenergy.com). These criteria include the candidate's integrity, business acumen, a commitment to understand our business and industry, experience, conflicts of interest and ability to act in the interests of all stockholders. The CGN Committee does not assign specific weights to particular criteria, and no particular criterion is a prerequisite for each prospective nominee.

Our Board believes that the backgrounds and qualifications of its directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow it to fulfill its responsibilities. The Selection Process for New Director Candidates tasks the CGN Committee with recommending director candidates who will assist in achieving this mix of Board members having diverse professional backgrounds and a broad spectrum of knowledge, experience and capability. At least once a year, the CGN Committee reviews the size and structure of the Board and its committees, including recommendations on Board committee structure and responsibilities.

In accordance with NYSE requirements, the CGN Committee also oversees an annual performance evaluation process for the Board, the Audit Committee, the Compensation Committee and the CGN Committee. In this process, anonymous responses from directors on a number of topics, including matters related to experience of Board and committee members, are discussed in executive sessions at Board and committee meetings. Although the effectiveness of the policy to consider diversity of director nominees has not been separately assessed, it is within the general subject matter covered in the CGN Committee's annual assessment and review of Board and committee structure and responsibilities, as well as within the Board and committee annual performance evaluation process.

Any stockholder entitled to vote for the election of directors may propose candidates for consideration for nomination for election to the Board. If the Board determines to nominate a stockholder-recommended candidate and recommends his or her election, then the candidate's name will be included on our proxy card for the next annual meeting. Stockholders also have the right under our bylaws to directly nominate director candidates, without any action or recommendation on the part of the CGN Committee or the Board, by following the procedures set forth under the heading *Stockholder Proposals for the 2014 Annual Meeting* below. Candidates nominated by stockholders in accordance with procedures set forth in the bylaws will not be included on our proxy card for the next annual meeting.

## **Table of Contents**

### **Board Role in Risk Oversight**

The Board's role in the risk oversight process includes receiving regular reports from members of senior management on areas of material risk to Key, including operational, financial, legal and regulatory, and strategic and reputational risks. The full Board (or the appropriate committee in the case of risks that are under the purview of a particular committee) receives these reports from the appropriate risk owner within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies. When a committee receives the report, the chair of the relevant committee reports on the discussion to the full Board during the committee reports portion of the next Board meeting. This enables the Board and its committees to coordinate the risk oversight role, particularly with respect to risk interrelationships. In addition, as part of its charter, the Audit Committee regularly reviews and discusses with management, our internal auditors and our independent registered public accounting firm, Key's policies relating to risk assessment and risk management. The Compensation Committee also specifically reviews and discusses risks that relate to compensation policies and practices. During 2012, we continued to engage in a comprehensive enterprise risk management process by evaluating our existing and emerging risk exposures and then implementing appropriate design plans to manage such risks. The Board reviews this process with management on a quarterly basis.

### **Board Meetings and Attendance**

The Board held seven meetings, either in person or by teleconference, during 2012. During that year, each of our directors attended at least 75% of the aggregate number of Board meetings and meetings held by all committees on which he or she then served.

### **Director Attendance at Annual Meeting of Stockholders**

Our Corporate Governance Guidelines provide that directors are expected to attend the annual meeting of stockholders. All of our directors attended the 2012 annual meeting, and we expect substantially all of our directors to attend the 2013 annual meeting.

### **Board Committees**

The Board has established five standing committees—Audit Committee, Compensation Committee, Equity Award Committee, CGN Committee and Executive Committee. Current copies of the charters of each of the Audit, Compensation and CGN Committees are posted on the *Corporate Governance* section of our website, [www.keyenergy.com](http://www.keyenergy.com).

The Board has determined that all of the members of each of the Board's standing committees, other than the Executive Committee and Equity Award Committee, are independent under the NYSE rules, including, in the case of all members of the Audit Committee, the independence requirements contemplated by Rule 10A-3 under the Securities Exchange Act of 1934, as amended.

### ***Audit Committee***

The responsibilities of the Audit Committee include the following:

appointing, evaluating, approving the services provided by and the compensation of, and assessing the independence of, our independent registered public accounting firm;

overseeing the work of our independent registered public accounting firm, including through the receipt and consideration of certain reports from such firm;

reviewing with the internal auditors and our independent registered public accounting firm the overall scope and plans for audits, and reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response;



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**Table of Contents**

reviewing and discussing with management and the independent registered public accounting firm our annual and quarterly financial statements and related disclosures;

reviewing and discussing with management and the independent registered public accounting firm our system of internal controls, financial and critical accounting practices and policies relating to risk assessment and risk management;

reviewing the effectiveness of our system for monitoring compliance with laws and regulations; and

preparing the Audit Committee report required by SEC rules (which is included under the heading *Report of the Audit Committee* below).

The current members of our Audit Committee are Messrs. Collins, Michael and Owens and Ms. Yocum. Ms. Yocum is the chair of the Audit Committee. All members of the Audit Committee meet the financial literacy standard required by the NYSE rules and at least one member qualifies as having accounting or related financial management expertise under the NYSE rules. In addition, as required by the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring that each public company disclose whether or not its audit committee has an audit committee financial expert as a member. An audit committee financial expert is defined as a person who, based on his or her experience, satisfies all of the following attributes:

an understanding of generally accepted accounting principles and financial statements;

an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level of complexity of issues that can reasonably be expected to be raised by Key's financial statements, or experience actively supervising one or more persons engaged in such activities;

an understanding of internal controls over financial reporting; and

an understanding of audit committee functions.

The Board has determined that Ms. Yocum and Mr. Michael satisfy the definition of audit committee financial expert, and designated each of Ms. Yocum and Mr. Michael as an audit committee financial expert.

The Audit Committee held thirteen meetings in 2012. In addition, members of the Audit Committee speak regularly with our independent registered public accounting firm and separately with the members of management to discuss any matters that the Audit Committee or these individuals believe should be discussed, including any significant issues or disagreements concerning our accounting practices or financial statements. For further information, see *Report of the Audit Committee* below.

The Audit Committee has the authority to retain legal, accounting or other experts that it determines to be necessary or appropriate to carry out its duties. We will provide the appropriate funding, as determined by the Audit Committee, for the payment of compensation to our independent registered public accounting firm and to any legal, accounting or other experts retained by the Audit Committee and for the payment of the Audit Committee's ordinary administrative expenses necessary and appropriate for carrying out the duties of the Audit Committee.

The Audit Committee charter provides that no member of the Audit Committee may simultaneously serve on the audit committees of more than three public companies (including our Audit Committee) unless the Board has determined that such simultaneous service would not impair his or her ability to effectively serve on our Audit Committee. Currently, no member of the Audit Committee serves on the audit committees of more than three public companies.

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The charter of our Audit Committee can be accessed on the *Corporate Governance* section of our website, [www.keyenergy.com](http://www.keyenergy.com).

## **Table of Contents**

### ***Compensation Committee***

The Compensation Committee has responsibility for establishing, implementing and continually monitoring adherence with our compensation philosophy. The responsibilities of the Compensation Committee include the following:

reviewing and approving corporate goals and objectives relevant to the compensation of the CEO;

evaluating the CEO's performance in light of corporate goals and objectives and, together with the other independent directors (as directed by the Board), determining and approving the CEO's compensation level based on this evaluation;

reviewing and approving the compensation of senior executive officers other than the CEO;

reviewing and approving any incentive-compensation plans or equity-based plans;

overseeing the activities of the individuals and committees responsible for administering incentive-compensation plans or equity-based plans, including the 401(k) plan, and discharging any responsibilities imposed on the Compensation Committee by any of these plans;

approving any new equity compensation plan or any material change to an existing plan where stockholder approval has not been obtained;

in consultation with management, overseeing regulatory compliance with respect to compensation matters, including overseeing Key's policies on structuring compensation programs to preserve tax deductibility;

making recommendations to the Board with respect to any severance or similar termination payments proposed to be made to any current or former senior executive officer or member of senior management of Key;

reviewing and recommending director compensation to the Board;

preparing an annual report of the Compensation Committee on executive compensation for inclusion in Key's annual proxy statement or annual report in accordance with applicable SEC rules and regulations; and

reviewing and approving the Compensation Disclosure and Analysis for inclusion in Key's annual proxy statement or annual report in accordance with applicable SEC rules and regulations.

The current members of the Compensation Committee are Messrs. Fertig, Marcum, Reeves and West, all of whom are independent, non-employee members of the Board. Mr. Reeves is the chair of the Compensation Committee. No Compensation Committee member participates in any of our employee compensation programs other than the Key Energy Services, Inc. 2009 Equity and Cash Incentive Plan and the Key Energy Services, Inc. 2012 Equity and Cash Incentive Plan, and prior grants under the Key Energy Services, Inc. 2007 Equity and Cash Incentive Plan and the Key Energy Group, Inc. 1997 Incentive Plan. The Compensation Committee held six meetings in 2012.

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The Compensation Committee has the sole authority to select, retain, terminate and approve the fees and other retention terms of special counsel or other experts or consultants, as it deems appropriate in order to carry out its responsibilities, without seeking approval of the Board or management. With respect to compensation consultants retained to assist in the evaluation of director, CEO or executive officer compensation, this authority is vested solely in the Compensation Committee.

The charter of our Compensation Committee can be accessed on the *Corporate Governance* section of our website, [www.keyenergy.com](http://www.keyenergy.com).

## **Table of Contents**

### ***Equity Award Committee***

Mr. Alario is the chair and sole member of the Equity Award Committee. Subject to certain exceptions and limitations, the Compensation Committee has delegated to the Equity Award Committee the ability to grant equity awards under our equity incentive plans to those employees who are not executive officers, usually in connection with new hires and promotions. During 2012, the Compensation Committee authorized the Equity Award Committee to make grants up to an aggregate of 150,000 stock options and/or shares of restricted stock to eligible employees under the annual approval authority for twelve months starting on January 16, 2012, but no more than 20,000 per grant or in the aggregate to any single employee during a twelve-month period. For 2013, the Compensation Committee reset this authority for a twelve-month period starting on January 21, 2013. In addition, on that same date, the Compensation Committee approved restricted stock, restricted stock units and performance unit grants to non-executive officer employees up to an aggregate amount, and authorized the Equity Award Committee to determine the individual grant amounts to each employee in its reasonable discretion in consultation with management. Reports of equity grants made by the Equity Award Committee are included in the materials presented at the Compensation Committee's regularly scheduled meetings.

### ***Corporate Governance and Nominating Committee***

The responsibilities of the CGN Committee include the following:

identify and recommend individuals to the Board for nomination as members of the Board and its committees, consistent with criteria approved by the Board;

develop and recommend to the Board corporate governance guidelines applicable to Key; and

oversee the evaluation of the Board and management of Key.

The CGN Committee consists entirely of independent directors, as that term is defined by applicable NYSE rules. The current members of the CGN Committee are Messrs. Fertig, Coleman, Marcum and West. Mr. Fertig is the chair of the CGN Committee. The CGN Committee held six meetings in 2012.

The CGN Committee has the authority and funding to retain counsel and other experts or consultants, including the sole authority to select, retain and terminate any search firm to be used to identify director candidates and to approve the search firm's fees and other retention terms.

The charter of our CGN Committee can be accessed on the *Corporate Governance* section of our website, [www.keyenergy.com](http://www.keyenergy.com).

### ***Executive Committee***

The Executive Committee's membership consists of the CEO and Chairman of the Board, the Lead Director and the chair of each of the Audit Committee, Compensation Committee and CGN Committee. The Executive Committee only acts in place of the Board in situations where it may be impracticable to assemble the full Board to consider a matter on a timely basis. Any action by the Executive Committee will be promptly reported to the full Board. Currently, Messrs. Alario, Fertig, Michael and Reeves and Ms. Yocum serve on the Executive Committee. The Executive Committee held two meetings in 2012.

### **Code of Business Conduct and Code of Business Conduct for Members of the Board of Directors**

Our Code of Business Conduct applies to all of our employees, including our CEO, CFO and senior financial and accounting officers. In addition, we have a Code of Business Conduct for Members of the Board of Directors. Among other matters, the Code of Business Conduct and the Code of Business Conduct for Members of the Board of Directors establish policies to deter wrongdoing and to promote both honest and ethical conduct, including ethical handling of actual or apparent conflicts of interest, compliance with applicable laws, rules and

## **Table of Contents**

regulations, full, fair, accurate, timely and understandable disclosure in public communications and prompt internal reporting of violations of the Code of Business Conduct. We also have an Ethics Committee, composed of members of management, which administers our ethics and compliance program with respect to our employees. In addition, we provide an ethics line for reporting any violations on a confidential basis. Copies of our Code of Business Conduct and the Code of Business Conduct for Members of the Board of Directors are available on our website at [www.keyenergy.com](http://www.keyenergy.com). We will post on our website all waivers to or amendments of our Code of Business Conduct and the Code of Business Conduct for Members of the Board of Directors that are required to be disclosed by applicable law and the NYSE listing standards.

## **Report of the Audit Committee**

The Audit Committee has reviewed the Company's audited financial statements for the fiscal year ended December 31, 2012 and has discussed these financial statements with the Company's management and independent registered public accounting firm.

The Audit Committee has also received from, and discussed with, Grant Thornton LLP, the Company's independent registered public accounting firm, various communications that the Company's independent registered public accounting firm is required to provide to the Audit Committee, including the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees).

The Company's independent registered public accounting firm also provided the Audit Committee with the written disclosures required by Public Company Accounting Oversight Board Rule 3526 (Communication with Audit Committees Concerning Independence). The Audit Committee has discussed with the independent registered public accounting firm their independence from Key.

Based on its discussions with management and the independent registered public accounting firm, and its review of the representations and information provided by management and the independent registered public accounting firm, the Audit Committee recommended to the Board of Directors of the Company that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

By the Audit Committee of the Board of Directors

Arlene M. Yocum, Chair

Kevin P. Collins

Ralph S. Michael, III

William F. Owens

## **Executive Officers**

Below are the names, ages and certain other information on each of our executive officers, other than Mr. Alario, whose information is provided above.

**Newton W. Trey Wilson III**, age 62, Executive Vice President and Chief Operating Officer. Mr. Wilson was appointed Executive Vice President and Chief Operating Officer on June 25, 2008. He joined Key as Senior Vice President and General Counsel on January 24, 2005 and was later appointed Secretary effective January 24, 2005. Previously, Mr. Wilson served as Senior Vice President, General Counsel and Secretary of Forest Oil Corporation, an oil and gas exploration company which he joined in November 2000. Prior to joining Forest Oil, Mr. Wilson was a consultant to the oil industry as well as an executive for two oil and gas companies, Union Texas Petroleum and Transco Energy Company. He also serves as a director for AlMansoori-Key Energy Services, LLC, an international oilfield services joint venture entity of Key based in the United Arab Emirates. Mr. Wilson received a BBA from Southern Methodist University and a JD from the University of Texas.

**Table of Contents**

**J. Marshall Dodson**, age 42, Senior Vice President and Chief Financial Officer. Mr. Dodson was appointed Senior Vice President and Chief Financial Officer on March 25, 2013. Mr. Dodson joined Key as Vice President and Chief Accounting Officer on August 22, 2005 and served in that capacity until being appointed Vice President and Treasurer on June 8, 2009. Mr. Dodson will continue to serve as Treasurer until a new treasurer is appointed by the Board. From February 6, 2009 until Mr. Whichard's election as Key's new Chief Financial Officer on March 26, 2009, Mr. Dodson served in the additional capacity as interim principal financial officer. Prior to joining Key, Mr. Dodson served in various capacities at Dynegy, Inc., an electric energy production and services company, from 2002 to August 2005, most recently serving as Managing Director and Controller, Dynegy Generation since 2003. Mr. Dodson started his career with Arthur Andersen LLP in Houston, Texas in 1993, serving most recently as a senior manager prior to joining Dynegy, Inc. Mr. Dodson received a BBA from the University of Texas at Austin in 1993.

**Kim B. Clarke**, age 57, Senior Vice President, Administration and Chief People Officer. Ms. Clarke joined Key on November 22, 2004 as Vice President and Chief People Officer. She was elected as an executive officer in January 2005 and, since January 1, 2006, she has served as our Senior Vice President and Chief People Officer (as of March 25, 2009, her title was changed to Senior Vice President, Administration and Chief People Officer). Her responsibilities include Human Resources, Health, Safety and Environmental, Continuous Improvement, Operational Administration and Information Technology. Previously, from 1999 to 2004, Ms. Clarke served as Vice President of Human Resources for GC Services, a teleservicing and collection services company. Prior to that, she served in a number of senior level human resource roles for Browning Ferris Industries (BFI), a waste management company, from 1988 to 1997 and as BFI's Vice President Human Resources from 1997 to 1999. She also currently serves as a director of ADA-ES, Inc. Ms. Clarke's 30 years of work experience also includes industry experience with Baker Service Tools and National Oilwell. Ms. Clarke holds a BS degree from the University of Houston.

**Kimberly R. Frye**, age 44, Senior Vice President, General Counsel and Secretary. Ms. Frye joined Key in October 2002 as Associate General Counsel and was promoted to her current position as Senior Vice President, General Counsel and Secretary in July 2008. Prior to joining Key, Ms. Frye was an attorney with Porter & Hedges, L.L.P. where her practice focused principally on corporate and securities law. Prior to attending law school, Ms. Frye worked as a federal bank examiner for the Federal Deposit Insurance Corporation. Ms. Frye received her BS in Corporate Finance and Investment Management from the University of Alabama in 1991 and her JD from the University of Houston in 1997.

**Guillermo A. Capacho**, age 51, Senior Vice President, International, Global Business Development and Technology. Mr. Capacho joined Key as Vice President, International Operations, Western Hemisphere in January 2010. Mr. Capacho's role changed to Senior Vice President, International Operations in August of 2010, and on January 27, 2011, his position changed to Senior Vice President, International. Effective March 15, 2011, his role changed to Senior Vice President, International Operations and Technology. He currently serves as Senior Vice President, International, Global Business Development and Technology effective January 21, 2013. Mr. Capacho brings over 25 years of industry experience and international operations knowledge, working previously with Halliburton where he held a variety of positions, most recently as: Senior Global Business Development and Commercialization Manager, Global Drilling Technology Manager, Country Vice-President for Halliburton of Mexico, Regional Operations Manager for Latin America and Business Development Manager for Latin America in multiple product service lines, like Directional Drilling, Wireline and Perforating, and Security Drilling Bits. Mr. Capacho received a BA in Petroleum Engineering from University Industrial of Santander Colombia and an executive degree from Halliburton's Presidents Leadership Excellence Program through a partnership with the Mays Business School at Texas A&M University.

**Mark A. Cox**, age 53, Vice President and Controller. Mr. Cox was appointed as Vice President and Controller on March 20, 2012, and serves as principal accounting officer. Mr. Cox joined Key as Vice President, Tax in October 2009. Prior to joining Key, he served from December 2008 to September 2009 as Chief Financial Officer for Recon International, a privately-held company providing construction services to Western military

**Table of Contents**

and private organizations in Afghanistan, the Middle East and North Africa. From August 1990 through November 2008, Mr. Cox held a variety of positions with BJ Services Company, including Director of Tax, Middle East Region Controller and Assistant Corporate Controller. He also worked in the tax practice of Arthur Andersen LLP from 1986 to 1990. Mr. Cox is a CPA and received a Bachelor of Accountancy degree from Houston Baptist University in 1986.

**Barry B. Ekstrand**, age 55, Senior Vice President, CTS, FRS and Edge. Mr. Ekstrand joined Key as its Vice President, Coiled Tubing Services on May 7, 2012. Effective January 21, 2013, he was appointed Senior Vice President, CTS, FRS and Edge. Prior to joining Key, he served as President of CRS Proppants since May 5, 2010. Mr. Ekstrand also has served in various capacities at Weatherford International from 2002 to 2010, including Global Vice President of Reservoir Stimulation & Pressure Pumping. Prior to joining Weatherford, he served 22 years at Halliburton Energy Services, including positions in technology, operations, planning, business development and engineering. He received his BS in Chemical Engineering from California State Polytechnic University at Pomona and his MBA from California State University at Bakersfield.

**William D. Moss**, age 60, Senior Vice President, Fluid Management Services. Mr. Moss joined Key as Senior Vice President, Fluid Management Services on January 2, 2013. Prior to joining Key, Mr. Moss served in various leadership positions at Newpark Resources, Inc. since June 2008, including President of Mats and Integrated Services and Environmental Services and Vice President, Corporate Strategy and Development. From April 1995 until June 2008, Mr. Moss held management positions at BJ Services Company, most recently since November 1997, as Division President of BJ Chemical Services. He served as Director, Logistics of BJ Services Company from April 1995 until October 1997. From 1988 to 1995, he was Vice President of Western Petroleum Services International Company. Prior to that, he spent 13 years in numerous leadership positions at Western Company of North America.

**Jeffrey S. Skelly**, age 55, Senior Vice President, Rig Services and Operations Support. Mr. Skelly joined Key as its Senior Vice President, Rig Services effective on June 21, 2010. He currently serves as Senior Vice President, Rig Services and Operations Support. Mr. Skelly's previous role was that of Chief Operating Officer at GEODynamics, a technology company focused on perforating systems and solutions, from November 2007 to January 2010. Previously, he was President for Expro Group's Western Hemisphere Operations from January 2005 to June 2007. Mr. Skelly has also served in several roles at Halliburton including Global Manufacturing Operations Manager, Global Product Manager for Logging and Perforating, and Regional Manager of Wireline and Testing for the Middle East. Mr. Skelly began his career in the oil and gas services business after earning a B.S. Degrees in Civil Engineering and Ocean Engineering from Florida Institute of Technology. After college, he joined Schlumberger and held various positions at Schlumberger over the next 15 years including Field Engineer, Technical Manager, Field Service Manager, District Manager, Area Operations Manager, and Sales Manager.

**T. M. Trey Whichard III**, age 54, former Senior Vice President and Chief Financial Officer. Mr. Whichard joined Key as its Senior Vice President and Chief Financial Officer on March 26, 2009. On March 25, 2013, Mr. Whichard retired, effective immediately, as Senior Vice President and Chief Financial Officer. Mr. Whichard will remain an employee of the Company until June 24, 2013. Mr. Whichard was retired prior to joining Key. Prior to his retirement in early 2006, he was Vice President and Chief Financial Officer for BJ Services Company. Mr. Whichard served in various financial capacities at BJ Services from 1989 until his retirement in 2006, including Vice President, Treasurer and Tax Director. He received a BBA in Accounting from Sam Houston State University.



**Table of Contents****Fees of Independent Registered Public Accounting Firm*****Audit Fees***

Effective December 1, 2006, Grant Thornton LLP was engaged as our independent registered public accounting firm. The following table sets forth the fees for the fiscal period to which the fees relate:

	2012(1)	2011(2)
Audit fees	\$ 2,408,118	\$ 2,567,750
Audit-related fees		
Tax fees		
All other fees		
<b>Total</b>	<b>\$ 2,408,118</b>	<b>\$ 2,567,750</b>

(1) Includes fees of \$44,238 for the 2012 statutory audit of our Canadian subsidiaries, fees of \$93,342 for the 2012 statutory audit of our Mexico subsidiaries, and fees of \$5,455 for the 2012 statutory audit of our Oman operations.

(2) Includes fees of \$35,991 for the 2011 statutory audit of our Argentina subsidiary, which we sold in September 2012, and fees of \$68,933 for the 2011 statutory audit of our Mexico subsidiaries.

Audit fees consist of professional services rendered for the audit of our annual financial statements, the audit of the effectiveness of our internal control over financial reporting and the reviews of the quarterly financial statements. This category also includes fees for issuance of comfort letters, consents, assistance with and review of documents filed with the SEC, statutory audit fees, work done by tax professionals in connection with the audit and quarterly reviews and accounting consultations and research work necessary to comply with the standards of the Public Company Accounting Oversight Board. Fees are generally presented in the period to which they relate as opposed to the period in which they were billed. Other services performed include certain advisory services and do not include any fees for financial information systems design and implementation.

***Policy for Approval of Audit and Non-Audit Fees***

The Audit Committee has an Audit and Non-Audit Services Pre-Approval Policy. The policy requires the Audit Committee to pre-approve the audit and non-audit services performed by our independent registered public accounting firm. Under the policy, the Audit Committee establishes the audit, audit-related, tax and all other services that have the approval of the Audit Committee. The term of any such pre-approval is twelve months from the date of pre-approval, unless the Audit Committee adopts a shorter period and so states. The Audit Committee will periodically review the list of pre-approved services and will add to or subtract from the list of pre-approved services from time to time. The Audit Committee will also establish annually pre-approval fee levels or budgeted amounts for all services to be provided by the independent registered public accounting firm. Any proposed services exceeding these levels or amounts will require specific pre-approval by the Audit Committee.

The Audit Committee has delegated to its chair the authority to pre-approve services, not previously pre-approved by the Audit Committee, that involve aggregate payments (with respect to each such service or group of related services) of \$50,000 or less. The chair will report any such pre-approval to the Audit Committee at its next scheduled meeting.

The policy contains procedures for a determination by the CFO that proposed services are included within the list of services that have received pre-approval of the Audit Committee. Proposed services that require specific approval by the Audit Committee must be submitted jointly by the independent registered public accounting firm and the CFO and must include backup statements and documentation regarding the proposed services and whether the proposed services are consistent with SEC and NYSE rules on auditor independence.



## **Table of Contents**

### **Certain Relationships and Related Party Transactions**

Our Affiliate Transaction Policy requires advance review and approval of any proposed transactions (other than employee or director compensation) between Key and an affiliate of Key. For this purpose, affiliates include major stockholders, directors and executive officers and members of their immediate family (including in-laws), nominees for director, and affiliates of the foregoing persons, as determined in accordance with SEC rules. In determining whether to approve an affiliate transaction, the Board will use such processes it deems reasonable in light of the circumstances, such as the nature of the transaction and the affiliate involved, which may include an analysis of any auction process involved, an analysis of market comparables, use of an appraisal, obtaining an investment banking opinion or a review by independent counsel. The policy requires the Board to determine that, under all of the circumstances, the covered transaction is in, or not inconsistent with, the best interests of Key, and requires approval of covered transactions by a majority of the Board (excluding any interested directors). The Board, in its discretion, may delegate this authority to the CGN Committee or another committee comprised solely of independent directors, as appropriate.

In addition, we require each of our directors and executive officers to complete an annual Directors and Officers Questionnaire to describe certain information and relationships (including those involving their immediate family members) that may be required to be disclosed in our Form 10-K, annual proxy statement and other filings with the SEC. Director nominees and newly appointed executive officers must complete the questionnaire at or before the time they are nominated or appointed. Directors and executive officers must immediately report to Key any changes to the information reported in their questionnaires arising throughout the year, including changes in relationships between immediate family members and Key, compensation paid from third parties for services rendered to Key not otherwise disclosed, interests in certain transactions and other facts that could affect director independence. Directors are required to disclose in the questionnaire, among other things, any transaction that the director or any immediate family member has entered into with Key or relationships that a director or an immediate family member has with Key, whether direct or indirect. This information is provided to our legal department for review and, if required, submitted to the Board for the process of determining independence.

### ***Transactions with Related Persons***

Mr. Reeves joined our Board in October 2007 and is currently an executive officer with Anadarko, one of our customers. During the fiscal year ended December 31, 2012, Anadarko purchased services from us for approximately \$37.0 million, which is less than 1% of Anadarko's revenue for 2012. In addition, Mr. Reeves' son-in-law, West P. Gotcher, who had been an employee of Edge Oilfield Services, LLC, joined the Company as a non-officer employee upon our acquisition of Edge in August 2011. Mr. Gotcher's total compensation received from the Company in 2012 was approximately \$125,000. Both relationships were reviewed and approved under the Affiliate Transaction Policy. The Board has determined that our relationships with such related parties do not affect the independence of Mr. Reeves and that Mr. Reeves qualifies as independent in accordance with NYSE listing standards.

Mr. Michael joined our Board in March 2003 and currently provides advice regarding the banking and financial services industries to the United States Advisory Board of Proudfoot. Proudfoot provided advisory services to us during 2012 related to our strategic general and administrative cost restructuring initiative. During the fiscal year ended December 31, 2012, payments to Proudfoot were \$1.9 million. This relationship was reviewed and approved under the Affiliate Transaction Policy. The Board has determined that our relationship with Proudfoot does not affect the independence of Mr. Michael and that Mr. Michael qualifies as independent in accordance with NYSE listing standards. Mr. Michael does not act in any other capacity for Proudfoot, such as a principal, partner or employee.

**Table of Contents**

**EXECUTIVE COMPENSATION**

**COMPENSATION DISCUSSION AND ANALYSIS**

This section of the proxy statement describes and analyzes our executive compensation philosophy and program in the context of the compensation paid to our Chief Executive Officer, our Chief Financial Officer, and our three other most highly compensated executive officers (together our Named Executive Officers or NEOs) for 2012. Our 2012 Named Executive Officers are:

Richard J. Alario, our President and Chief Executive Officer;

T.M. Whichard III, our Senior Vice President and Chief Financial Officer;

Newton W. Wilson III, our Executive Vice President and Chief Operating Officer;

Kim B. Clarke, our Senior Vice President, Administration and Chief People Officer; and

Kimberly R. Frye, our Senior Vice President, General Counsel and Secretary.

On March 25, 2013, Mr. Whichard retired, effective immediately, as Senior Vice President and Chief Financial Officer. John Marshall Dodson, who had been serving as our Vice President and Treasurer, was appointed to replace Mr. Whichard as Senior Vice President and Chief Financial Officer. Mr. Dodson will also continue to serve as Treasurer.

In this Compensation Discussion and Analysis, we first provide an executive summary of our actions and highlights from 2012. We next explain the factors affecting the compensation decisions, results from 2012 and changes for the 2013 executive compensation program. We will also explain our principles that guide our Compensation Committee's executive compensation decisions, including the compensation philosophy. We encourage you to read the entirety of the executive compensation discussion.

***Executive Summary***

We provide a full range of well services to major oil companies, foreign national oil companies and independent oil and natural gas production companies. Our services include rig-based and coiled tubing-based well maintenance and workover services, well completion and recompletion services, fluid management services, fishing and rental services and other ancillary oilfield services. Additionally, certain of our rigs are capable of specialty drilling applications. We operate in most major oil and natural gas producing regions of the continental United States, and we have operations in Mexico, Colombia, the Middle East and Russia. In addition, we have a technology development and control systems business based in Canada. For more information about our business please see *Business and Management's Discussion and Analysis of Financial Condition and Results of Operations* in our annual report on Form 10-K for the year ended December 31, 2012.

***Overview of 2012***

Industry conditions are influenced by a number of factors, such as the domestic and international supply and demand for oil and natural gas, domestic and international economic conditions, political instability in oil producing countries and merger, acquisition and divestiture activity among E&P companies.

In the first half of 2012, customer spending drove increased demand for our services. Accordingly, we invested in equipment, personnel and resources necessary to accommodate market growth. Meanwhile, oil prices peaked near \$110 per barrel early in the year and subsequently declined to under \$80 per barrel by mid-year. The lower realized oil prices combined with natural gas prices below \$3.50 per mcf persisting through most of the year, negatively impacted customer cash flow.



## **Table of Contents**

As a result of our customers' reduced operating cash flow, our overall activity levels and pricing for our services decreased as 2012 progressed. We experienced reduced equipment utilization and under-absorbed operating costs, particularly in our Fluids Management Services, Coiled Tubing Services, and Fishing and Rental Services, due to their higher exposure to natural gas markets, where customer demand weakened and price competition increased for the services we provide.

Earlier in the year, we expanded our capacity in large diameter, extended reach capable coiled tubing units. We increased our frac stack and well testing business in the Eagle Ford, and we developed a presence in other oil shale markets, notably the Mississippian Lime and Bakken Shale markets. We continued to recapitalize our U.S. rig services fleet, deploying modern heavy workover rigs and retiring and scrapping older, less capable well servicing rigs.

Internationally, we more than doubled our presence in Mexico, and we expanded in Colombia and the Middle East. Additionally during 2012, we sold our Argentina operations.

As Key reacted to these dynamics, our profit margins declined in the U.S. Despite a 13.4% increase in revenue from 2011 and the growth and profitability we experienced in our International segment, Key's operating income fell short of our objectives.

Despite these volatile market factors, our management team delivered the following financial and operational performance in 2012:

Achieved over 30% year-over-year improvement in our total recordable safety incident rate.

Generated consolidated revenues of \$1.96 billion for the full year 2012, up 13.4% compared to \$1.73 billion for the full year 2011.

Generated full year 2012 income from continuing operations attributable to Key of \$101.2 million, or \$0.67 per share, compared to full year 2011 income from continuing operations attributable to Key of \$112.1 million, or \$0.76 per share.

Invested \$447.2 million in capital expenditures for the full year 2012, while maintaining net debt to total capitalization for year end at 37.6%.

Maintained full year general and administrative expenses of \$230.5 million, or 11.8% of consolidated revenues.

Doubled the size of operations in Mexico and sold our Argentina business.

In 2012, our NEOs effectively managed the execution of key business and made strategic decisions that enabled achievement of the results noted above. We also made meaningful progress against our long-term strategy to improve our balance sheet and deploy capital and continue to drive favorable, long-term shareholder returns. In our International segment, we continued to execute our long-term strategy to grow our global presence and leverage our existing infrastructure. These results were significant given the unique oilfield services business cycle we witnessed in 2012.

### *2012 Executive Compensation Highlights*

Although we achieved strong financial and operational performance in 2012, it was below our management incentive goals for the corporation as a whole. As such, for the year ended 2012:

No NEO was paid any cash bonus under the Company's cash bonus incentive plan; and

No payments were made with respect to performance units that were granted in 2012.

## **Table of Contents**

More details regarding our 2012 performance and executive compensation can be found below. We encourage you to read this section in conjunction with the advisory (nonbinding) vote with respect to the compensation of our NEOs described below. See *Compensation of Executive Officers Summary Compensation Table* and other related compensation tables and narrative disclosure in the *Compensation of Executive Officers* section below.

### ***Factors Affecting Compensation Decisions***

We believe that our compensation program is aligned with our philosophy that compensation should be competitive with the market, be driven by contribution to the company, reward exceptional performance and promote retention. Our compensation programs are designed to challenge participants as well as reward them for superior performance for our company and our stockholders. As such, we believe that our program should:

be competitive, not only to attract highly qualified executives, but also to motivate and retain them;

reward executives for exceptional individual and organizational performance in support of our business strategy; and

align executives' interests with those of our stockholders by structuring executive pay to include annual incentive awards that are paid, if at all, based on Company performance, and, in the case of longer term incentive awards, tied to increases in the Company's stock price.

We view our employees as an investment for the future, and not just an expense of our company. We invest in our people for the future opportunity to deliver more value to our stockholders and customers.

This Compensation Discussion and Analysis section will discuss in greater detail our compensation policies and practices, each element of compensation and the relevant basis for each. We believe that our compensation programs, policies and practices, disclosed in this report and in the tables that follow, demonstrate that our compensation philosophy and programs achieve our compensation goals, and that the total mix of compensation provided to our Named Executive Officers is consistent with a philosophy of motivation and reward for achieving long-term stockholder value.

### ***Elements of Compensation***

The annual compensation program for our senior executives consists principally of the following components:

base salaries;

cash bonus incentive plan; and

long-term equity-based incentive compensation.

The following charts set forth each element as a proportion of the total compensation that the CEO and the other NEOs were targeted to receive for 2012:





## Table of Contents

For comparison purposes, the charts below set forth each element as a proportion of the total reportable compensation for the CEO and for the other NEOs for 2012:

The charts above regarding total reportable compensation illustrate that for the year ended December 31, 2012, 79% of our CEO's total direct compensation, and, on average, 74% of our other NEOs' total direct compensation, is variable and is equity-based long-term compensation that rewards the executive only when our shareholders are also rewarded.

### *Base Salaries*

We provide base salaries to compensate our senior executives and other employees for services performed during the fiscal year. This provides a level of financial certainty and stability in an industry with historical volatility and cyclicity. The base salaries are designed to reflect the experience, education, responsibilities and contribution of the individual executive officers. This form of compensation is eligible for annual merit increases, and is initially established for each executive through individual negotiation and is reflected in his or her employment agreement. Thereafter, salaries are reviewed annually, based on a number of factors, both quantitative, including detailed organizational and competitive analyses performed by an independent consultant engaged by the Compensation Committee, and qualitative, including the Compensation Committee's perception of the executive's experience, performance and contribution to our business objectives and corporate values.

### *Cash Bonus Incentive Plan*

The cash bonus incentive plan provides variable cash compensation earned only when established performance goals are achieved. It is designed to reward the plan participants, including the NEOs, who have achieved certain corporate and executive performance objectives and have contributed to the achievement of certain objectives of Key. The cash bonus incentive plan is measured on an annual basis.

Under this cash compensation program, each executive has the opportunity to earn a cash incentive compensation bonus based on the achievement of pre-determined operating and financial performance measures and other performance objectives established by the Compensation Committee. The cash bonus incentive plan goals are as follows:

### Cash Bonus Incentive Plan Measurements

**PBT** The financial target is based on profit before taxes, or PBT. We calculate this financial target as net income before income taxes, amounts attributable to noncontrolling interests and the results of discontinued operations. We also exclude certain non-recurring gains, losses or costs, such that it is reflective of the operational income of the company.

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**Table of Contents**

Safety This goal represents the improvement required, or desired result, in the Occupational Safety and Health Administration, or OSHA, total recordable incident rate. OSHA total recordable incident rates are determined by measuring the number of injury incidents involving our employees against the number of exposure hours worked. Incidents that are considered recordable include injuries resulting in a fatality, an employee missing work, an employee having to switch to light duty or restricted work or an employee requiring medical treatment.

Additional Individual Objectives Individual performance goals are based on individual objectives for each NEO specific to his or her area of expertise and oversight that are consistent with strategic plan objectives, such as the implementation of a new corporate-wide initiative, system or policy. The Compensation Committee sets, to the extent it deems appropriate, the individual targets for the CEO. The individual objectives for all other NEOs are set by the CEO.

Our financial performance target and safety target are determined using the Company's budget and operating plan, respectively, for the subsequent year for which the bonuses are being paid. The operating budget is approved by the Board each year. The Compensation Committee then establishes a threshold and a target percentage of financial performance for the period. The cash bonus plan incentive incorporates weightings with respect to each of the performance measurements.

The Compensation Committee reviews all performance goals at the beginning of the period and authorizes payment following the end of the period. Under our incentive compensation program, the Compensation Committee has discretion to adjust targets, as well as individual awards, either positively or negatively.

*Long-Term Equity-Based Incentive Compensation*

The purpose of our long-term incentive compensation is to align the interests of our executives with those of our stockholders and to retain our executives and employees over the long term. We want our executives to be focused on increasing stockholder value. In order to encourage and establish this focus on stockholder value, during 2012, we used the Key Energy Services, Inc. 2007 Equity and Cash Incentive Plan (or the 2007 Plan), the Key Energy Services, Inc. 2009 Equity and Cash Incentive Plan (or the 2009 Plan) and the 2012 Equity and Cash Incentive Plan (or the 2012 Plan, and together with the 2007 Plan and 2009 Plan, the Equity Plans) as long-term vehicles to accomplish this goal.

To promote our long-term objectives, equity awards are made under the Equity Plans to directors, executive officers and other employees who are in a position to make a significant contribution to our long-term success. The terms of the Equity Plans are substantially the same, and each provides that the Compensation Committee has the authority to grant participants different types of equity awards, including non-qualified and incentive stock options, common stock, restricted stock, restricted stock units, performance compensation awards and stock appreciation rights (or SARs). Because equity awards may vest and grow in value over time, this component of our compensation plan is designed to provide incentives to reward performance over a sustained period. Since adoption of the respective Equity Plans, only stock options and restricted stock have been granted under the 2007 Plan, and only restricted stock, restricted stock units and performance units have been granted under the 2009 Plan and 2012 Plan.

A significant portion of compensation is granted in at-risk performance-based units tied to Company performance. All equity grants, including performance-based grants, are subject to clawback and detrimental activities provisions that allow us to reclaim previously granted equity under certain circumstances.

**Table of Contents**

The following types of awards are available for grant under the Equity Plans:

**Restricted Stock.** Restricted stock awards represent awards of actual shares of our common stock that include vesting provisions which are contingent upon continued employment. Typically the restricted stock we grant to our executives vests at a rate of one-third per year over a three-year term.

We believe that awards of restricted stock provide a significant incentive for executives to achieve and maintain high levels of performance over multi-year periods, and strengthen the connection between executive and stockholder interests. We believe that restricted shares are a powerful tool for helping us retain executive talent. The higher value of a share of restricted stock in comparison to a stock option allows us to issue fewer total shares in order to arrive at a competitive total long-term incentive award value. Furthermore, we believe that the use of restricted stock reflects competitive practice among other oilfield service companies with whom we compete for executive talent.

**Performance Units.** Performance units provide a cash incentive award, the unit value of which is determined with reference to the value of our common stock. The performance units are measured based on two performance periods. One half of the performance units are measured based on a performance period consisting of the first year after the grant date, and the other half are measured based on a performance period consisting of the second year after the grant date. At the end of each performance period, subject to review and certification of results by our Compensation Committee, performance units subject to that performance period vest based on the relative placement of Key's total stockholder return within a peer group of companies.

Total stockholder return is calculated with respect to each performance period, for Key and each other company in the peer group, based on the change in (i) the average closing price of common stock for the 30 trading days immediately preceding the grant date and (ii) the average closing price of common stock for the last 30 trading days before the end of the applicable performance period (adding to such amount, if any, dividends paid per share by any of the companies during the applicable performance period).

The peer group for the performance units consists of the group of eleven companies used for comparative market data analyses in connection with setting compensation levels, which is listed and discussed below under the heading *The Role of Compensation Consultants*.

The number of performance units that may be earned by a participant is determined at the end of each performance period based on the relative placement of Key's total stockholder return for that period within the peer group, as follows:

<b>Company Placement</b>	<b>Percentile</b>	<b>Performance Units</b>
<b>In Proxy Peer Group for</b>	<b>Ranking</b>	<b>Earned as a</b>
<b>the Performance Period</b>	<b>In</b>	<b>Percentage of Target</b>
	<b>Proxy Peer</b>	
	<b>Group</b>	
First	100%	200%
Second	91%	180%
Third	82%	160%
Fourth	73%	140%
Fifth	64%	120%
Sixth	55%	100%
Seventh	45%	75%
Eighth	36%	50%
Ninth	27%	25%
Tenth	18%	0%
Eleventh	9%	0%
Twelfth	0%	0%

If any performance units are earned based on the above criteria for one or both of the performance periods, then the participant will be paid, within 60 days following the end of the applicable performance period, a cash amount equal to the number of units earned multiplied by the closing price of our common stock on the

**Table of Contents**

last trading day of that performance period (subject to the participant's continuing employment through the payment date, except that payment will still be made in the case of the participant's death or disability following the end of the performance period but prior to the payment date).

We believe that awards of performance units provide a significant incentive for senior executives to remain employed and to achieve and maintain high levels of performance over multi-year periods, and strengthen the connection between executive and stockholder interests.

**Stock Options.** Stock options represent rights to purchase shares of Key common stock at a set price at some date in the future, not to exceed ten years from the date of grant (except for incentive stock options granted to a stockholder holding 10% or more of our common stock, the term of which may not exceed five years from the grant date). Stock options are granted with an exercise price equal to the closing stock price on the date of the grant (except for incentive stock options granted to a stockholder holding 10% or more of our common stock, the exercise price for which may not be less than 110% of the fair market value on the date of grant). Although no performance-vesting criteria are applied to our stock option awards, we believe that stock options represent a powerful performance incentive, as the options become valuable only to the extent that our stock price increases following the date of grant.

**Stock Appreciation Rights.** SARs entitle the recipient to receive the difference between the exercise price and the fair market value of a share of our common stock on the date of exercise, multiplied by the number of shares of common stock for which the SAR was exercised. The exercise price is equal to the closing stock price on the date of grant. The exercise price for a SAR may be settled in cash, shares of our common stock or a combination thereof. Although no SARs have been granted under the 2009 Plan or the 2007 Plan, SARs granted under the Key Energy Group, Inc. 1997 Incentive Plan remain outstanding. Currently outstanding SARs were granted with three-year ratable vesting schedules and 10-year lives.

***2012 Compensation Results and Decisions******Annual Cash Bonus Incentive Plan Results for the Year Ended December 31, 2012***

For 2012, the Compensation Committee measured overall Company and business performance by focusing on profit before taxes, or PBT. Although the Company achieved a positive PBT of \$160.0 million in 2012, this amount was below the performance goal set for the executives. Under the 2012 cash bonus incentive plan, funding of the plan could occur only if the threshold level of financial performance was met. As our financial performance fell short of the threshold, no incentive bonuses were awarded under the program regardless of goal achievement under the other non-financial measures. Therefore, even though the Company achieved its safety performance goal, no incentive bonuses were awarded under the program.

<b>Participant</b>	<b>2012 Cash Incentive Bonus Paid</b>	
Richard J. Alario	\$	0
T.M. Whichard III	\$	0
Newton W. Wilson III	\$	0
Kim B. Clarke	\$	0
Kimberly R. Frye	\$	0

**Table of Contents***Annual Long-Term Incentive Grant*

For 2012, the Compensation Committee approved grants that provided for an allocation of long-term incentive compensation consisting of 80% restricted stock and 20% performance units, using the following long-term incentive plan multipliers recommended by the compensation consultant:

<b>Participant</b>	<b>LTI Multiplier (to base salary)</b>
Richard J. Alario	450%
T.M. Whichard III	325%
Newton W. Wilson III	350%
Kim B. Clarke	275%
Kimberly R. Frye	250%

**Restricted Shares**

The following table sets forth the number of restricted shares granted for 2012 using the multiplier above and the 80% restricted share allocation. The number of restricted shares granted was based on the then existing stock price at or about the time of grant and the multiple of base salary recommended by the compensation consultant. The below table shows a substantial decrease in the value of those restricted shares since the date that the number of restricted shares granted was determined.

<b>Participant</b>	<b>2012 Restricted Shares Granted</b>	<b>Grant Value (based on \$15.47 stock price)</b>	<b>Value at March 22, 2013 (based on \$7.97 stock price)</b>
Richard J. Alario	193,613	\$ 2,995,200	\$ 1,543,096
T.M. Whichard III	63,025	\$ 975,000	\$ 502,309
Newton W. Wilson III	81,448	\$ 1,260,000	\$ 649,141
Kim B. Clarke	46,930	\$ 726,000	\$ 374,032
Kimberly R. Frye	38,785	\$ 600,000	\$ 309,116

**Performance Units**

The following table sets forth the number of performance shares granted in 2012 using the multiplier above and the 20% performance unit allocation. The number of performance units granted was based on the then existing stock price at or about the time of grant and the multiple of base salary recommended by the compensation consultant. The below table shows a substantial decrease in the value of those remaining performance units since the date that the number of performance units granted was determined.

<b>Participant</b>	<b>2012 Performance Units Granted</b>	<b>Grant Value (based on \$15.47 stock price)</b>	<b>First Vesting Payout</b>	<b>Value of Remaining Performance Units (based on \$7.97 stock price)</b>
Richard J. Alario	48,403	\$ 748,800	\$ 0	\$ 192,890
T.M. Whichard III	15,756	\$ 243,750	\$ 0	\$ 62,788
Newton W. Wilson III	20,362	\$ 315,000	\$ 0	\$ 81,143
Kim B. Clarke	11,732	\$ 181,500	\$ 0	\$ 46,752
Kimberly R. Frye	9,696	\$ 150,000	\$ 0	\$ 38,639

**Table of Contents**

The executives received a payment of performance units originally granted in 2010 with respect to the second performance period that extended two months into 2012. All future performance periods for the outstanding performance units are based on a calendar year (such as those identified in the above table), but these units reflected a 12-month rolling period that ended February 29, 2012. Although the calculation reflects performance over the final 10 months of 2011, the performance units actually vested in 2012. The payment for those units was as follows (the first vesting did not result in a payout):

<b>Participant</b>	<b>2010 Performance Units Vested in 2012</b>	<b>Payment on Vesting</b>
Richard J. Alario	26,999	\$ 460,603
T.M. Whichard III	7,301	\$ 124,555
Newton W. Wilson III	8,761	\$ 149,463
Kim B. Clarke	5,366	\$ 91,544
Kimberly R. Frye	5,354	\$ 91,339

For additional information about equity grants awarded in 2012, see *Compensation of Executive Officers Summary Compensation Table* and *2012 Grants of Plan-Based Awards*.

***2013 Incentive Program Redesign***

The Compensation Committee approved changes to the executive compensation program for 2013. Although target total direct compensation in 2012 was aligned with market practices, actual pay delivery was below market. Given their qualifications, experience and professionalism, our executives, as well as the non-executive members of our management team who may be candidates for promotion, are highly regarded within and outside our industry. As such, we recognized the need to adjust the compensation program for 2013 to address retention concerns. We believe that these changes are better designed to be competitive with other market opportunities. Further, we believe that these changes maintain our emphasis on pay-for-performance and align our executive compensation with shareholder interests while further strengthening the risk-balancing features of our executive compensation program.

***Cash Bonus Incentive Plan Revisions***

**Bonus Opportunity.** Under the 2012 cash bonus incentive plan, funding will occur only if the corporate financial target was satisfied regardless of whether any other performance metric was met or even if a business segment met its individual goals. Financial performance would then impact all other measures. Each performance measure would be factored depending on the level of financial performance met. For example, Mr. Alario could receive 50% to 300% of his absolute base salary depending on our financial performance. The new bonus structure still factors each performance measure as a percentage of base salary; however under the revised cash bonus incentive plan, each performance metric and related factoring is independent of the results of the other performance measures.

**Table of Contents**

The changes for 2013 reduce the bonus opportunity that the executives may earn, but also allow for payment when the executive successfully performs. The effect of the changes to the cash bonus incentive plan is a leveling of the swings in the cash bonus payouts. The executive will have more opportunities to earn a bonus, but threshold and maximum payouts are reduced. As a percentage of salary, target payout remains the same as under the 2012 cash bonus plan. By way of example, the following two tables depict the payout for Mr. Alario under both the 2012 cash bonus incentive plan and the revised 2013 cash bonus incentive plan (in each case, assuming maximum performance with respect to all targets):

**Example 2012 Bonus Structure (maximum PBT performance)**

Performance Measure	Base Salary	Bonus Opportunity	Weighting	Bonus Component
PBT	\$ 865,000	300%	60%	\$ 1,557,000
Safety	\$ 865,000	300%	15%	\$ 389,250
Individual	\$ 865,000	300%	25%	\$ 648,750
Total Bonus Opportunity				\$ 2,595,000

**Example 2013 Revised Bonus Opportunity (maximum performance on all goals)**

Performance Measure	Base Salary	Bonus Opportunity	Weighting	Bonus Component
PBT	\$ 865,000	250%	50%	\$ 1,081,250
Safety	\$ 865,000	250%	25%	\$ 540,625
Individual	\$ 865,000	250%	25%	\$ 540,625
Total Bonus Opportunity				\$ 2,162,500

To further illustrate the changes to the cash bonus incentive plan, the following tables depict Mr. Alario's bonus opportunities under different scenarios.

**Example 2013 Revised Bonus Opportunity (without PBT Threshold)**

Performance Measure	Base Salary	Bonus Opportunity(1)	Weighting	Bonus Component
PBT	\$ 865,000		50%	\$ 0
Safety	\$ 865,000	250%	25%	\$ 540,625
Individual	\$ 865,000	125%	25%	\$ 270,313
Total Bonus Opportunity				\$ 810,938

- (1) Assumes that the Company did not make the target PBT threshold, but achieved the maximum safety performance goal, and that Mr. Alario achieved target performance on his individual performance goals.

**Example 2013 Revised Bonus Opportunity (with varying performance achievement)**

Performance Measure	Base Salary	Bonus Opportunity(1)	Weighting	Bonus Component
PBT	\$ 865,000	125%	50%	\$ 540,625
Safety	\$ 865,000	125%	25%	\$ 270,313
Individual	\$ 865,000	250%	25%	\$ 540,625



Total Bonus Opportunity	\$ 1,351,563
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- (1) Assumes that the Company made the target PBT goal, achieved the target safety performance goal, and that Mr. Alario achieved maximum performance on his individual performance goals.

**Table of Contents**

The new plan encourages continued performance in all areas by factoring each performance metric independently. It also provides the appropriate level of discretion on individual performance measures. We believe that the appropriate balance and incentive for the executives to perform is established by allowing an executive to earn a bonus when he meets one or more key objectives. The Compensation Committee continues to be able to exercise negative and positive discretion with respect to any bonus payout.

**Financial Performance Metric.** The financial performance target will continue to be profit before taxes, or PBT. However, the Company will introduce and measure RONCE (return on net capital employed) during 2013 to ascertain its possible inclusion in the 2014 cash bonus incentive plan. Training will be required to ensure that all participants understand the impact of this new measure and its calculation. We believe that incorporating RONCE into the performance targets will further emphasize the Company's appropriate and diligent use of capital.

**Safety Performance Metric.** Although we will continue to use total recordable incident rate as our objective safety measure for NEOs, the Company is aligning the operational segments around a combination of total recordable incident rates and proactive measures.

*Long Term Equity-Based Incentive Revisions*

For 2012, the Compensation Committee approved grants that provided for an allocation of long-term incentive compensation consisting of 80% restricted stock and 20% performance units. For 2013, the Compensation Committee approved grants using the following long-term incentive plan multipliers recommended by the compensation consultant and provided for an allocation of long-term incentive compensation consisting of restricted stock and performance units as follows, which increased the percentage of performance units awarded to both the CEO and COO:

<b>Participant</b>	<b>LTI Multiplier (to base salary)</b>	<b>% of Performance Units</b>	<b>% of Restricted Stock</b>
Richard J. Alario	450%	50%	50%
T.M. Whichard III	325%	20%	80%
Newton W. Wilson III	350%	40%	60%
Kim B. Clarke	275%	20%	80%
Kimberly R. Frye	250%	20%	80%

The program continues to tie executive compensation to the Company's long-term financial performance, with a significant portion that is deferred and at-risk, and is designed to create appropriate incentives for employees to maximize long-term shareholder value, discourage excessive risk taking and promote retention.

*Base Salary*

As previously disclosed, the Compensation Committee, effective January 2012, approved annual base salary increases for each NEO, which represented an average salary increase of 4.9% for the NEOs overall. In consultation with the compensation consultant and its compensation analysis for the current year, the Compensation Committee approved, effective January 2013, annual base salary increases for certain NEOs, which represent an average salary increase of 3.9%, for those NEOs:

<b>Name</b>	<b>2011 Base Salaries (Effective as of December 31, 2011)</b>	<b>2012 Base Salaries (Effective as of January 2012)</b>	<b>Annual Base Salaries (Effective as of January 2013)</b>
Richard J. Alario	\$ 832,000	\$ 865,000	\$ 865,000
T.M. Whichard III	\$ 375,000	\$ 390,000	\$ 390,000
Newton W. Wilson III	\$ 450,000	\$ 482,000	\$ 496,460
Kim B. Clarke	\$ 330,000	\$ 343,000	\$ 360,150
Kimberly R. Frye	\$ 300,000	\$ 318,000	\$ 330,720

**Table of Contents**

Neither Mr. Alario's nor Mr. Whichard's salary was increased for 2013. Pursuant to his employment agreement entered into in connection with his appointment as Senior Vice President and Chief Financial Officer on March 25, 2013, Mr. Dodson will receive an annual salary of \$350,000.

**2013 Cash Bonus Incentive Plan**

**Individual Metrics.** The cash bonus incentive plan is earned when established performance goals are achieved. For 2013, in connection with the redesign of the cash bonus incentive plan discussed above, each performance measure for each NEO under the cash bonus incentive plan is weighted as follows:

Participant	Performance Measure Weighting		
	PBT	Safety	Individual
Richard J. Alario	50%	25%	25%
T.M. Whichard III	50%	25%	25%
Newton W. Wilson III	50%	25%	25%
Kim B. Clarke	50%	25%	25%
Kimberly R. Frye	50%	25%	25%

The bonus opportunity under the cash bonus incentive plan is calculated as an absolute percentage of base salary multiplied by the respective weighting for the performance target. For each NEO, the bonus opportunity as a percentage of base salary for 2013 for each performance measure is as follows:

Participant	2013 Bonus Opportunity			Participant	2013 Bonus Opportunity		
	Financial Target Threshold	Target	Maximum		Safety Target Threshold	Target	Maximum
Richard J. Alario	25%	125%	250%	Richard J. Alario	25%	125%	250%
T.M. Whichard III	20%	80%	160%	T.M. Whichard III	20%	80%	160%
Newton W. Wilson III	20%	90%	160%	Newton W. Wilson III	20%	90%	160%
Kim B. Clarke	20%	75%	160%	Kim B. Clarke	20%	75%	160%
Kimberly R. Frye	20%	75%	160%	Kimberly R. Frye	20%	75%	160%

Participant	Individual Performance Targets		
	Threshold	Target	Maximum
Richard J. Alario	25%	125%	250%
T.M. Whichard III	20%	80%	160%
Newton W. Wilson III	20%	90%	160%
Kim B. Clarke	20%	75%	160%
Kimberly R. Frye	20%	75%	160%

The total cash bonus opportunity reflects the incremental bonus percentage that may be received by an executive once the respective performance measure (PBT, Safety or Individual Goals) is achieved. Each performance metric is calculated on a stand alone basis.

For example, Mr. Alario would be entitled to 25% to 124% of his base salary depending on the level of PBT above threshold, but below target, which would then be multiplied by the 50% weighting for the financial target. At target financial performance, Mr. Alario would receive 125% of his salary, which would then be multiplied by the 50% weighting for the financial target. The same concept applies if we outperform target PBT. In that scenario, Mr. Alario would be entitled to 126% to 250% of his base salary, depending on the level above PBT target, which would then be multiplied by the 50% weighting for the financial target. The same applies with respect to the safety target and the individual goals. If we meet the threshold or overachieve on those targets, Mr. Alario would be entitled to 25% or 250%, respectively, of his base salary, which would then be multiplied by the applicable weighting for that target.

## **Table of Contents**

### *2013 Cash Bonus Plan Performance Targets*

The financial performance measurement and safety measurement are established based on our 2013 budget and our 2013 operating plan, respectively. As last year's results demonstrated, our ability to attain the financial performance target is contingent on several factors beyond our control, including commodity prices, customers' capital budgets and the global economy. Moreover, the 2013 target reflects a significant stretch beyond projections of our estimated activity levels. As such, while we believe that the financial performance measurement established by the Compensation Committee is achievable, it may be difficult to attain if our assumptions prove to be inaccurate.

Safety targets are determined based on overall recordable incident rate trends to activity levels on a year-over-year basis. In 2012, we achieved a 30% improvement from the prior year's total recordable incident rate. This year's target was calculated as a percentage of improvement from last year's results. In this regard, the safety goals set for 2013 may be less achievable because of the additional stretch (and in light of significant workforce turnover); nevertheless, safety improvement is fundamental to the core values at Key and those of our customers, and, accordingly, we will continue to set performance goals that strive for an incident-free workplace.

The Compensation Committee has also established the individual goals for the CEO, who has in turn established the individual goals for the other NEOs. Each NEO has three target goals and of the individual performance targets are margin-enhancing goals that are consistent with strategic plan initiatives.

### *Oversight of Executive Compensation Program*

As described above under *Corporate Governance Board Committees Compensation Committee*, the Compensation Committee of our Board is responsible for establishing, implementing and continually monitoring adherence with our compensation philosophy. The Compensation Committee has the sole authority to engage independent compensation consultants, who report directly to the committee, to advise and consult on compensation issues.

### *Role of Executives in Establishing Compensation*

The Compensation Committee makes the final determination of all compensation paid to our NEOs and is involved in all compensation decisions affecting our chief executive officer. When making compensation decisions for individual executive officers, the committee considers many factors, including:

the individual's role and responsibilities, performance, tenure, and experience;

our overall performance;

the individual's historical compensation, equity holdings, realized gains on past equity grants; and

comparisons to other executive officers of our Company.

The committee evaluates the performance of the chief executive officer and considers the evaluations of the other Named Executive Officers on an annual basis following the close of each fiscal year. Although these performance evaluations are most closely connected to the qualitative portion of the officer's annual incentive award, the committee considers individual performance in evaluating the appropriateness of the officer's base salary specifically and the compensation package as a whole. However, management also plays a role in the determination of executive compensation levels. The key members of management involved in the compensation process are the chief executive officer, the chief financial officer, the chief operating officer, the general counsel, and the administration and chief people officer. Management proposes certain corporate and executive performance objectives for executive management based on the following year's financial business plan, which is approved by the Board each year. Management also participates in the discussion of peer companies to be used to benchmark NEO compensation, and recommends the overall funding level for cash bonuses and equity incentive awards. All management recommendations are reviewed by Longnecker, modified as necessary by the Compensation Committee, and approved by the Compensation Committee. The Compensation Committee meets regularly in executive session without management present.



## **Table of Contents**

### ***Compensation Philosophy***

In order to recruit and retain the most qualified and competent individuals as senior executives, we strive to maintain a compensation program that is competitive in our market and with respect to the general profession of our executives. We remain committed to hiring and retaining qualified, motivated employees at all levels within the organization while ensuring that all forms of compensation are aligned with business needs. The purpose of our compensation program is to reward exceptional organizational and individual performance. Our compensation system is designed to support the successful attainment of our vision, values and business objectives.

The following compensation objectives are considered in setting the compensation components for our senior executives:

Attracting and retaining key executives responsible not only for our continued growth and profitability, but also for ensuring proper corporate governance and carrying out the goals and plans of Key;

Motivating management to enhance long-term stockholder value and to align our executives' interests with those of our stockholders;

Correlating a portion of management's compensation to measurable performance, including specific financial and operating goals;

Evaluating and rating performance relative to the existing market conditions during the measurement period; and

Setting compensation and incentive levels that reflect competitive market practices.

We want our executives to be motivated to achieve our short- and long-term goals, without sacrificing our financial and corporate integrity in trying to achieve those goals. While an executive's overall compensation should be strongly influenced by the achievement of specific financial targets, we believe that an executive must be provided a degree of financial certainty and stability in his or her compensation. The design and operation of the compensation arrangements provide the executives with incentives to engage in business or other activities that would support the value of Key or its stockholders. One mechanism to achieve this arrangement is our stock ownership guidelines. See *Stock Ownership of Certain Beneficial Owners and Management Stock Ownership Guidelines* above.

The principal components of our executive compensation program are base salary, cash incentive bonuses and long-term incentive awards in the form of equity, including performance-based equity. We blend these elements in order to formulate compensation packages that provide competitive pay, reward the achievement of financial, operational and strategic objectives on a short- and long-term basis, and align the interests of our executive officers and other senior personnel with those of our stockholders. To understand our compensation philosophy, it is important to note that we believe compensation is not the only manner in which we attract people to Key. We strive to hire and retain talented people who are compatible with our corporate culture, committed to our core values, and who want to make a contribution to our mission.

### ***The Role of Compensation Consultants***

The Compensation Committee has sole authority over the selection, use, and retention of any compensation consultant or any other experts engaged to assist the committee in discharging its responsibilities. The committee engaged Longnecker & Associates to assist with its overall compensation review and decision-making. Longnecker conducted a comprehensive, broad-based analysis of our executive compensation program, and the committee used this analysis as one of several reference points in making decisions regarding 2012 compensation. Longnecker performed services solely on behalf of the Compensation Committee and has no other relationship with the Company or its management.

## Table of Contents

Longnecker also provides guidance on industry best practices. This information assists us in developing and implementing compensation programs generally competitive with those of other companies in our industry and other companies with which we generally compete for executive talent. The compensation committee reviews salary ranges for all senior executive positions annually. In November 2012, the Compensation Committee engaged Longnecker to conduct an independent, third-party executive compensation review and provide analyses, conclusions and recommended considerations. Longnecker's objectives were to:

Review the total direct compensation (base salary, annual incentives, and long-term incentives) for the NEOs;

Assess the competitiveness of executive compensation, based on revenue size, asset size, enterprise value and market capitalization, as compared to the peer group and published survey companies in the energy services industry; and

Provide conclusions and recommended considerations for total direct compensation.

Longnecker also tailored its recommendations to (i) balance external market data, (ii) reflect our internal environment to ensure fiscal responsibility, and (iii) address potential retention concerns. Specifically, Longnecker evaluated the total direct compensation of the senior executives, assessed the competitiveness of our executive compensation and analyzed other factors such as cost of management, pay versus total stockholder return performance, mix of pay, peer annual incentive targets and mix of peer long-term incentive awards.

The benchmarks used for the executive compensation comparisons included companies in our industry with similar revenue and companies that we considered to be competing for the same level of executive talent. The following companies fit one or both of those categories and were used in our most recent peer group analysis:

Baker Hughes Incorporated	Oil States International, Inc.
Basic Energy Services, Inc.	Patterson-UTI Energy, Inc.
Exterran Holdings, Inc.	RPC, Inc.
Helix Energy Solutions Group, Inc.	Superior Energy Services, Inc.
Noble Corporation	Weatherford International Ltd.
Oceaneering International, Inc.	

Longnecker also reviewed survey data as a reference point to compare the compensation of our executives to those of a broad range of companies. The following published surveys utilized by Longnecker were:

Economic Research Institute, *2012 ERI Executive Compensation Assessor*;

Mercer, Inc., *2012 US General Benchmark Survey*;

Mercer, Inc. *2012 Energy Benchmark Survey*;

Towers Watson *2012/2013 Top Management Compensation*;

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Kenexa, 2012 CompAnalyst;

Longnecker & Associates, *2011 Long-Term Incentive Survey*; and

WorldatWork, *2012/2013 Total Salary Increase Budget Survey*.

Based on its review of the compensation program, Longnecker recommended to the Compensation Committee that we (i) maintain the practice of aligning targeted total cash opportunity at or slightly above the market median; (ii) maintain the use of restricted stock for the senior executive team in addition to increasing the use of performance units to align executive and stockholder interests; and (iii) continue aligning base salaries of the executive team at or just above the market midpoint.



## **Table of Contents**

Third parties other than Longnecker provided advice and consulting services related to all other non-executive compensation.

### ***Executive Compensation Risk Assessment***

We do not believe that our compensation policies and practices encourage excessive or unnecessary risk-taking. In fact, we believe that our program is designed with an appropriate balance of annual and long-term incentives. Factors considered in this analysis include the following:

performance incentives with both financial and operational metrics that are not completely based on arithmetic formulas, but also incorporate the exercise of negative and positive discretion and judgment;

long-term incentives that are principally based on the retention and motivation of employees through a combination of long-term incentive vehicles;

use of different equity performance measures, including performance-based units, mitigating risk that our executive officers will take actions that are detrimental to or not in the best interest of our stockholders;

regularly benchmarking our current compensation practices, policies and pay levels with our peer group;

aligning with the market mid-point for targeted total direct compensation, such that management is aligned with stockholder interests while rewarding for exceptional performance in comparison with its peer group;

capping the maximum amounts that may be earned under our incentive compensation plans;

granting equity awards annually, with appropriate vesting periods, that encourage consistent behavior and reward long-term, sustained performance; and

ensuring that our executive compensation programs are overseen by a committee of independent directors, who are advised by an external compensation consultant.

### ***Other Components of Total Compensation***

The total compensation program for our senior executives also consists of the following components:

retirement, health and welfare benefits;

perquisites;

discretionary cash bonuses; and

certain post-termination payments.

*Retirement, Health and Welfare Benefits*

We offer a 401(k) savings plan and health and welfare programs to all eligible employees. Under the terms of their employment agreements, the NEOs are eligible for the same broad-based benefit programs on the same basis as the rest of our employees. Our health and welfare programs include medical, pharmacy, dental, vision, life insurance and accidental death and disability. For additional information about employment agreements, see *Compensation of Executive Officers Employment Agreements* below.

Under the 401(k) plan, eligible employees may elect to contribute up to 100% of their eligible compensation on a pre-tax basis in accordance with the limitations imposed under the Internal Revenue Code of 1986, as amended, or the Code. We also match 100% of each employee's deferrals up to 4% of the individual's eligible salary, subject to a cap of \$250,000. Therefore, even if an employee earned more than \$250,000 in eligible salary, our matching contribution could not exceed \$10,000.

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## **Table of Contents**

The cash amounts contributed under the 401(k) plan are held in a trust and invested among various investment funds in accordance with the directions of each participant. For the year ended December 31, 2012, we made employer matching contributions to the 401(k) plan in the amount of \$11,072,310.

### *Perquisites*

In addition to the compensation described above, under the terms of his employment agreement, the CEO may also be reimbursed for personal financial advisory counseling, accounting and related services, legal advisory or attorneys' fees and income tax preparation and tax audit services. Additional perquisites paid for the CEO include automobile allowances, plus reimbursement for reasonable insurance and maintenance expenses, and club memberships. With respect to all NEOs, we pay all covered out-of-pocket medical and dental expenses not otherwise covered by insurance. The NEOs receive these reimbursements under the terms of, and subject to the limitations set forth in, our Executive Health Reimbursement Plan. Our costs associated with providing these benefits for NEOs in 2012 are reflected under *Compensation of Executive Officers Perquisites* and *Employment Agreements* below.

### *Discretionary Cash Bonuses*

In addition to the bonuses that may be paid under the cash bonus incentive plan discussed above, from time to time, the Compensation Committee may also approve the payment of discretionary cash bonuses to officers and other employees in recognition of an individual's achievement beyond established targets. No discretionary bonuses were paid to any Named Executive Officer for fiscal year 2011 or 2012.

### *Severance Payments/Change of Control*

We have employment agreements in place with each of the NEOs providing for severance compensation for a period of up to three years if the executive's employment is terminated for a variety of reasons, including a change of control of Key. We have provided more information about these benefits, along with estimates of the value under various circumstances, under the heading *Compensation of Executive Officers Payments upon Termination or Change of Control* below.

Our practice has been to structure control benefits as "double trigger" benefits. In other words, the change of control does not itself trigger benefits. Rather, benefits are paid only if the employment of the executive is terminated during a specified period after a change of control. We believe a "double trigger" benefit maximizes stockholder value because it prevents an unintended windfall to executives in the event of a friendly change of control, while still providing appropriate incentives to cooperate in negotiating any change of control. In addition, these agreements avoid distractions involving executive management that arise when the Board is considering possible strategic transactions involving a change of control, and assure continuity of executive management and objective input to the Board when it is considering any strategic transaction. For additional information concerning our change of control agreements, see *Compensation of Executive Officers Payments upon Termination or Change of Control* below.

Each of the executive officers is subject to noncompete and non-solicitation provisions pursuant to the terms of their employment agreements. See below under *Compensation of Executive Officers Employment Agreements* for additional information about the NEOs' employment agreements.

### *Regulatory Considerations*

The tax and accounting consequences of utilizing various forms of compensation are considered by the Compensation Committee when adopting new or modifying existing compensation.

Under Section 162(m) of the Code, publicly held corporations may not take a tax deduction for compensation in excess of \$1 million paid to any of the executive officers named in the Summary Compensation

## **Table of Contents**

Table during any fiscal year. There is an exception to the \$1 million limitation for performance-based compensation meeting certain requirements. To maintain flexibility in compensating executives in a manner designed to promote varying corporate goals, the Compensation Committee has not adopted a policy requiring all compensation to be deductible under Section 162(m). However, the Compensation Committee considers deductibility under Section 162(m) with respect to compensation arrangements for executives. The Compensation Committee cannot guarantee that future executive compensation will be fully deductible under Section 162(m).

### ***Accounting for Equity-Based Compensation***

We account for equity-based compensation in accordance with the requirements of FASB ASC Topic 718, *Stock Compensation*.

### ***Appointment of John Marshall Dodson as Senior Vice President and Chief Financial Officer***

On March 25, 2013, Mr. Dodson was appointed Senior Vice President and Chief Financial Officer. Effective as of the date of his appointment as Chief Financial Officer, Mr. Dodson received a restricted stock award grant of 100,000 shares under the 2012 Plan. The shares will vest ratably over a three year period.

In addition, Mr. Dodson entered into an employment agreement, dated as of March 25, 2013, with Key Energy Services, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company ( Key LLC ). Mr. Dodson s employment agreement provides for an initial term of two years and automatically renews for successive one-year extension terms unless terminated by Mr. Dodson or Key LLC at least 90 days prior to the commencement of an extension term. The employment agreement provides that Mr. Dodson receives an annual salary of \$350,000, which can be increased (but not decreased) at the discretion of the Compensation Committee and the CEO. Mr. Dodson is also eligible to participate in the Company s cash performance compensation plan providing for incentive bonuses or other cash incentives payable upon the achievement of goals set forth in the Company s strategic plan as developed by the Compensation Committee, after consultation with the CEO and Mr. Dodson. In addition, Mr. Dodson is entitled to participate in awards of equity-based incentives at the discretion of the Board or the Compensation Committee. Mr. Dodson also receives comprehensive medical and dental plans available to the Company s senior management, pursuant to which all medical and dental expenses incurred by him and his spouse and children will be reimbursed through insurance or, in the absence of insurance, directly by Key LLC, so that he has no out-of-pocket cost with respect to such expenses.

If, during the term of his employment, Mr. Dodson s employment is terminated by Key LLC for any reason other than for Cause or Disability (each as defined in the employment agreement), including non-renewal of the employment agreement, or by Mr. Dodson for Good Reason (as defined in the employment agreement), Mr. Dodson will be entitled to severance compensation equal to two times his annual base salary in effect at the time of termination, payable in equal installments over a 24-month period following termination. If Mr. Dodson s employment is terminated as a result of Disability (as defined in the employment agreement), he will be entitled to severance compensation equal to his base salary, payable in 12 monthly installments, reduced by the amount of any employer-provided disability insurance proceeds actually paid during such time. In addition, in the event of a termination of Mr. Dodson s employment within one year following a Change in Control of the Company (as defined in the employment agreement) (i) by Key LLC for any reason other than for Cause (including Disability or non-renewal of the employment agreement) or (ii) by Mr. Dodson for Good Reason, his severance compensation will be increased to three times his annual salary plus three times his annual target cash bonus, and will be payable in a lump sum on the date of his termination.

If Mr. Dodson s employment is terminated by Key LLC for any reason other than for Cause (including Disability or non-renewal of the employment agreement) or by Mr. Dodson for Good Reason (and not as a result of death), Mr. Dodson will be entitled to certain continued employment benefits until the earlier of: (i) the second

**Table of Contents**

anniversary of the termination date, (ii) the last date of eligibility under the applicable benefits or (iii) the date when he commences full-time employment with another employer. The Company will pay the premiums for COBRA health coverage for Mr. Dodson and his covered family members for the period COBRA provides. In the event of a Change in Control of the Company, these benefits will be paid in a lump sum at the time of termination.

In addition, if Mr. Dodson's employment is terminated by Key LLC for any reason other than for Cause (including Disability or non-renewal of the employment agreement), is terminated by him for Good Reason or is terminated due to his death, any equity-based incentives held by Mr. Dodson that have not vested prior to the termination date shall immediately vest and all vested equity-based incentives shall remain exercisable until the earlier of (i) the first anniversary date of the termination or (ii) the stated expiration date of the equity-based incentive.

The employment agreement contains a comprehensive non-compete provision that prohibits Mr. Dodson from engaging in any activities that are competitive with the Company during his employment, and for any period in which he is receiving severance compensation from Key LLC (or if payment of severance compensation is increased due to a Change of Control, for a period of three years after the termination of employment) or for 12 months following termination if he receives no severance compensation from Key LLC.

Mr. Dodson will not be entitled to a gross-up payment under the employment agreement for the excise taxes that may be levied on excess parachute payments (within the meaning of Section 280G of the Code) made to him upon a change of control. The employment agreement provides for compliance with the provisions of Section 409A of the Code concerning the payment of potential future benefits to Mr. Dodson and reimbursement of any tax penalties owed pursuant to Section 409A of the Code on an after-tax basis.

**Table of Contents****Compensation of Executive Officers****Summary Compensation Table**

The following table contains information about the compensation that our NEOs earned for fiscal years 2012, 2011 and 2010:

Name and Principal Position	Year	Salary	Bonus (\$)	Stock Awards	Option Awards	Non-equity Incentive Plan	All Other Compensation	Total
		(\$)		(\$)(1)(2)	(\$)(3)	(\$)(4)	(\$)(5)	
Richard J. Alario Chief Executive Officer	2012	\$ 863,731		\$ 3,610,879			\$ 64,453	\$ 4,539,063
	2011	\$ 832,000		\$ 3,457,528		\$ 2,121,600	\$ 50,630	\$ 6,461,758
	2010	\$ 776,000		\$ 3,788,066		\$ 1,000,000	\$ 53,983	\$ 5,618,049
T. M. Whichard III Chief Financial Officer	2012	\$ 389,423		\$ 1,175,413			\$ 10,364	\$ 1,575,200
	2011	\$ 375,000		\$ 1,168,790		\$ 605,625	\$ 4,164	\$ 2,153,579
	2010	\$ 359,495		\$ 1,256,422		\$ 310,000	\$ 414	\$ 1,926,331
Newton W. Wilson III Chief Operating Officer	2012	\$ 480,769		\$ 1,519,005			\$ 22,754	\$ 2,022,528
	2011	\$ 450,000		\$ 1,402,542		\$ 726,750	\$ 26,862	\$ 2,606,154
	2010	\$ 431,394		\$ 1,507,709		\$ 375,000	\$ 15,036	\$ 2,329,139
Kim B. Clarke Administration and Chief People Officer	2012	\$ 342,500		\$ 875,237			\$ 17,970	\$ 1,235,707
	2011	\$ 325,817		\$ 857,119		\$ 532,950	\$ 25,732	\$ 1,741,618
	2010	\$ 264,229		\$ 880,669		\$ 275,000	\$ 15,567	\$ 1,435,465
Kimberly R. Frye(6) General Counsel and Secretary	2012	\$ 171,923		\$ 723,337			\$ 14,868	\$ 910,128
	2011	\$ 298,077		\$ 779,189		\$ 484,500	\$ 20,524	\$ 1,582,290
	2010	\$ 263,630		\$ 820,510		\$ 260,000	\$ 22,470	\$ 1,366,610

(1) Other than the impact of an estimated forfeiture rate relating to service-based vesting conditions (which is not reflected in these amounts), each year includes the fair value dollar amounts with respect to restricted stock awards granted under the 2009 Plan and the 2007 Plan, calculated on the respective grant date of each such award in accordance with FASB ASC Topic 718. The assumptions made in the valuation of the expense amounts included in this column are discussed in Note 20 in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

(2) The amounts shown for 2010 include the fair market value as of the grant date of performance units awarded to each of the NEOs that year, adjusted for the probability at the time of grant that the performance units may not fully vest with respect to the relevant performance periods. The value of performance units was determined based on two performance periods. One half of the performance units were measured based on a performance period consisting of the first year after the grant date, and the other half were measured based on a performance period consisting of the second year after the grant date. At the end of each period, 100%, 50%, or 0% of an individual's performance units for that period could vest, based on the relative placement of our total stockholder return within a peer group consisting of five other companies. With respect to this 2010 performance unit grant, our total stockholder return was in the bottom third of our peer group for the first performance period and the top third for the second performance period, so the performance units subject to the first performance period expired unvested and the performance units subject to the second performance period fully vested.

The amounts shown for 2012 include the fair market value as of the grant date of performance units awarded to each of the NEOs that year, adjusted for the probability at the time of grant that the performance units may not fully vest with respect to the relevant performance periods. The value of performance units was determined based on two performance periods. One half of the performance units were measured based on a performance period from January 1, 2012 to December 31, 2012, and the other half are measured based on a performance period from January 1, 2013 to December 31, 2013. The number and estimated fair value of performance units outstanding for each NEO is presented in the *Market Value of Shares or Units of Stock That Have Not Vested* column of the *2012 Outstanding Equity Awards at Fiscal Year-End* table below. For a description of performance units, see *Elements of Compensation Long-Term Equity-Based Incentive Compensation Performance Units* under *Compensation Discussion and Analysis* above.



**Table of Contents**

- (3) No awards of stock options or SARs were granted to the NEOs in 2010, 2011 or 2012. However, outstanding stock options and SARs are held by certain NEOs. See the *2012 Outstanding Equity Awards at Fiscal Year-End* table below.
- (4) The amounts shown in this column consist of annual bonus payments made to the NEOs under each of the 2010 cash bonus incentive plan and the 2011 cash bonus incentive plan. No bonuses were paid to any of the NEOs under the 2012 cash bonus incentive plan.
- (5) A breakdown of the amounts shown in this column for 2012 for each of the NEOs is set forth in under *Perquisites* below.
- (6) Ms. Frye took a leave of absence from January 2012 to July 2012.

**Perquisites**

The following table contains information about the perquisites that our NEOs received for fiscal year 2012:

Name	Savings Plan Contributions(1)	Insurance	Auto Allowance(2)	Medical Expenses(3)	Other	Total
Richard J. Alario	\$ 10,000	\$ 14,337(4)	\$ 13,200	\$ 16,831	\$ 10,085(5)	\$ 64,453
T. M. Whichard III	\$ 9,950				\$ 414(6)	\$ 10,364
Newton W. Wilson III	\$ 10,000	\$ 3,029(7)		\$ 8,537	\$ 1,188(6)	\$ 22,754
Kim B. Clarke	\$ 10,000			\$ 7,196	\$ 774(6)	\$ 17,970
Kimberly R. Frye	\$ 10,000			\$ 4,750	\$ 118(6)	\$ 14,868

- (1) Represents contributions by Key on behalf of the NEO to the Key Energy Services, Inc. 401(k) Savings and Retirement Plan.
- (2) Represents an automobile allowance paid to Mr. Alario during 2012 pursuant to the terms of his employment agreement. Mr. Alario is entitled to receive up to \$13,200 per year for this perquisite under his employment agreement.
- (3) Represents out-of-pocket medical expenses reimbursed to the NEO.
- (4) Represents a premium that was paid by Key on behalf of Mr. Alario for a life insurance policy and \$3,707 for the related tax gross-up payment pursuant to his employment agreement.
- (5) Represents (i) \$9,311 reimbursed to Mr. Alario for personal services provided by certified public accountants or tax attorneys and (ii) \$774 for imputed income with respect to life insurance, both of which were paid pursuant to Mr. Alario's employment agreement.
- (6) Includes amounts for imputed income with respect to life insurance paid pursuant to each NEO's respective employment agreement.
- (7) Represents a premium that was paid on behalf of Mr. Wilson for a life insurance policy and \$374 for the related tax gross-up payment pursuant to his employment agreement.



**Table of Contents****CEO Reported Pay vs. Realized Pay**

A substantial portion of the compensation granted by the Compensation Committee to the CEO and reported in the above Summary Compensation Table represents an incentive for future performance, not current cash compensation. The value of this pay when realized may differ significantly from the amounts shown in the Summary Compensation Table, depending on how Key actually performs. The table below illustrates the difference between pay shown in the Summary Compensation Table and the actual pay realized by the CEO for fiscal years 2012, 2011 and 2010:

Year of Compensation	Reported Pay(1)	Realized Pay(2)	Realized Pay vs. Reported Pay
2012	\$ 4,539,063	\$ 1,388,787	-\$ 3,150,276
2011	\$ 6,461,758	\$ 5,522,196	-\$ 939,562
2010	\$ 5,618,049	\$ 4,706,859	-\$ 911,190

(1) Reported Pay is Total Compensation based on the current reporting rules for the Summary Compensation Table.

(2) Realized Pay is compensation actually received by the CEO during the year, including salary, non-equity incentive plan compensation, realized value on the sale of restricted stock, performance unit payouts, and all other compensation.

**2012 Grants of Plan-Based Awards**

The following table presents information on plan-based awards made to the NEOs in fiscal 2012:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Stock Awards: Number of Securities	All Other Option Awards: Number of Securities	Exercise or Base Price of Option	Grant Date Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)				
Richard J. Alario		\$ 432,500	\$ 1,081,250	\$ 2,595,000				
	1/16/12				193,613(3)			\$ 2,888,706
	1/16/12				48,403(4)			\$ 722,173(5)
T. M. Whichard III		\$ 136,500	\$ 312,000	\$ 741,000				
	1/16/12				63,025(3)			\$ 940,333
	1/16/12				15,756(4)			\$ 235,080(5)
Newton W. Wilson III		\$ 168,700	\$ 433,800	\$ 915,800				
	1/16/12				81,448(3)			\$ 1,215,204
	1/16/12				20,362(4)			\$ 303,801(5)
Kim B. Clarke		\$ 120,050	\$ 257,250	\$ 651,700				
	1/16/12				46,930(3)			\$ 700,196

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	1/16/12				11,732(4)	\$ 175,041(5)
Kimberly R. Frye		\$ 111,300	\$ 238,500	\$ 604,200		
	1/16/12				38,785(3)	\$ 578,672
	1/16/12				9,696(4)	\$ 144,664(5)

- (1) The columns represent the potential annual value of the payout for each NEO under the cash bonus incentive compensation component if the threshold, target or maximum goals were satisfied. For a detailed description of the cash bonus incentive plan, see the *Cash Bonus Incentive Plan* section under *Compensation Discussion and Analysis* above.
- (2) Other than the impact of the forfeiture rate relating to service-based vesting conditions (which is not reflected in these amounts), these amounts represent the grant date fair value calculated in accordance with FASB ASC Topic 718, except as further described in footnote 5 below.

**Table of Contents**

- (3) Represents the number of restricted shares granted in 2012 to the NEOs under the 2009 Plan. The restricted shares vest ratably over the three-year period following the date of grant.
- (4) Represents the number of performance units granted in 2012 to the NEOs under the 2009 Plan. For a detailed description of performance units, see *Elements of Compensation Performance Units* under *Compensation Discussion and Analysis* above.
- (5) Reflects the fair market value as of the grant date of performance units awarded to each of the NEOs in 2012, adjusted for the probability that the performance units may not fully vest with respect to the relevant performance period. For a detailed description of performance units, see *Elements of Compensation Performance Units* under *Compensation Discussion and Analysis* above and footnote 2 of the *Summary Compensation Table* above.

***Employment Agreements***

Each NEO's employment agreement provides for an initial term of two years and automatically renews for successive one-year extension terms unless terminated by the executive or Key at least 90 days prior to the commencement of an extension term. Each of the NEOs receives an annual salary, which can be increased (but not decreased, except as it relates to Mr. Whichard's employment agreement, which is silent on whether the annual salary can be decreased) at the discretion of the Compensation Committee and, in the case of Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye, at the discretion of the CEO. Each executive is also eligible for an annual incentive bonus, of up to 100% of his or her base salary in the case of Mr. Wilson, Ms. Clarke and Ms. Frye, up to 200% of his base salary in the case of Mr. Alario, and up to such amount as determined by the Compensation Committee in consultation with the CEO in the case of Mr. Whichard. Each NEO is entitled to participate in awards of equity-based incentives at the discretion of the Board or the Compensation Committee. Pursuant to the Executive Health Reimbursement Plan, in the absence of medical and dental insurance coverage, Key reimburses each of the NEOs directly for all medical and dental expenses incurred by them and their respective spouses and children, so that the executives have no out-of-pocket cost with respect to such expenses.

Mr. Alario receives an allowance of \$1,100 per month, plus reimbursement for reasonable insurance and maintenance expenses, in connection with the use of his automobile and is entitled to be reimbursed up to \$15,000 in any fiscal year for personal services provided by certified public accountants and tax attorneys. Mr. Alario is also entitled to be reimbursed for the initiation fee and the annual or other periodic fees, dues and costs to become and remain a member of one club or association for business use, as approved by the Compensation Committee.

Each NEO's employment agreement contains a comprehensive non-compete provision. The non-compete provision prohibits the executive from engaging in any activities that are competitive with Key during his or her employment, and for any period in which the executive is receiving severance compensation from Key (or if payment of severance compensation is increased due to a change of control, for a period of three years after the termination of employment) or for twelve months following termination if the executive receives no severance compensation from Key.

The employment agreements for all of the NEOs provide for compliance with the provisions of Section 409A of the Code concerning the payment of potential future benefits to the executives and reimbursement of any tax penalties owed pursuant to Section 409A of the Code on an after-tax basis. If any of Mr. Alario, Mr. Whichard, Mr. Wilson, Ms. Clarke or Ms. Frye is subject to the tax imposed due to unfavorable tax treatment under Section 4999 of the Code because of any termination-related payments, Key has agreed to reimburse the NEO for such tax on an after-tax basis. However, for Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye, if it is determined that he or she is otherwise entitled to a gross-up payment, the total parachute payments may be reduced if it is determined that the reduction in the total parachute payments would not give rise to any excise tax and the reduced parachute payments would not be less than 90% of the total parachute payments before such reduction. In addition, if any of Mr. Alario, Mr. Whichard, Mr. Wilson, Ms. Clarke or

**Table of Contents**

Ms. Frye is subject to unfavorable tax treatment under Section 409A of the Code because of any nonqualified deferred compensation payments. Key has agreed to reimburse the NEO for such tax on an after-tax basis. As part of a comprehensive review of executive compensation conducted in 2011, the Compensation Committee confirmed that it was appropriate to honor and preserve the existing provisions related to the excise tax reimbursement for Key's current executive officers, including the NEOs. However, the Compensation Committee determined that Key will not include any reimbursement provisions for taxes under either Section 409 or Section 4999 of the Code in employment agreements for executives on a prospective basis.

The employment agreements also provide for certain severance benefits for each of the NEOs. Please see *Payments Upon Termination or Change of Control* and *Elements of Severance Payments* below for further discussion.

On March 25, 2013, Mr. Whichard retired, effective immediately, as Senior Vice President and Chief Financial Officer. Mr. Whichard will remain an employee of the Company until June 20, 2013. John Marshall Dodson, who had been serving as our Vice President and Treasurer, was appointed to replace Mr. Whichard as Senior Vice President and Chief Financial Officer. The terms of Mr. Dodson's employment agreement entered into in connection with his appointment are described under *Compensation Discussion and Analysis Appointment of John Marshall Dodson as Senior Vice President and Chief Financial Officer* above.

**2012 Outstanding Equity Awards at Fiscal Year-End**

The following table provides information with respect to outstanding stock options, restricted stock and performance units held by the NEOs as of December 31, 2012:

Name	OPTION AWARDS				STOCK AWARDS		
	Number of Securities Underlying Unexercised Options (#) Exercisable(1)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)
Richard J. Alario	200,000			\$ 11.90	06/24/15	485,032(3)	\$ 3,370,972
	224,719(4)			\$ 14.32	08/22/17	24,202(5)	\$ 168,204(6)
	231,000			\$ 15.07	04/10/18		
T. M. Whichard III						186,536(2)	\$ 1,296,425
						7,878(5)	\$ 54,752(6)
Newton W. Wilson III	125,000			\$ 11.90	06/24/15	199,662(2)	\$ 1,387,651
	74,906(4)			\$ 14.32	08/22/17	10,181(5)	\$ 70,758(6)
	72,250			\$ 15.07	04/10/18		
Kim B. Clarke						117,800(2)	\$ 818,710
						5,866(5)	\$ 40,769(6)
Kimberly R. Frye	5,000			\$ 10.22	05/07/13	102,296(2)	\$ 710,957
	10,000			\$ 11.81	05/07/13	4,848(5)	\$ 33,694(6)

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7,500	\$ 15.05	03/15/16
12,000	\$ 14.32	08/22/17
8,500	\$ 15.07	04/10/18
25,000	\$ 16.06	07/31/18
8,825	\$ 16.50	08/21/18

- (1) All of the stock options and SARs held by the NEOs were underwater as of December 31, 2012, meaning the exercise prices of the awards are above the market price of our common stock.
- (2) The market price of stock awards is determined by multiplying the number of shares by the closing price of the stock on the last trading day of the year. The closing price quoted on the NYSE on December 31, 2012 was \$6.95.

**Table of Contents**

- (3) Represents shares of restricted stock which vest in annual increments beginning on the one-year anniversary of the date of grant. With respect to each NEO, the vesting is as follows:

<b>Name</b>	<b>Number of Shares</b>	<b>Vesting Date</b>
Richard J. Alario	115,195	January 28, 2013
	88,112	February 4, 2013
	88,112	February 4, 2014
	64,538	January 16, 2013
	64,538	January 16, 2014
	64,537	January 16, 2015
T. M. Whichard III	38,940	January 28, 2013
	22,500	March 26, 2013
	2,500	May 11, 2013
	29,786	February 4, 2013
	29,785	February 4, 2014
	21,009	January 16, 2013
	21,008	January 16, 2014
21,008	January 16, 2015	
Newton W. Wilson	46,729	January 28, 2013
	35,743	February 4, 2013
	35,742	February 4, 2014
	27,150	January 16, 2013
	27,149	January 16, 2014
	27,149	January 16, 2015
Kim B. Clarke	27,184	January 28, 2013
	21,843	February 4, 2013
	21,843	February 4, 2014
	15,644	January 16, 2013
	15,643	January 16, 2014
	15,643	January 16, 2015
Kimberly R. Frye	23,797	January 28, 2013
	19,857	February 4, 2013
	19,857	February 4, 2014
	12,929	January 16, 2013
	12,928	January 16, 2014
	12,928	January 16, 2015

- (4) Represents SARs.

- (5) Represents the number of performance units outstanding at the end of 2012, which consists of one-half of the performance units that were granted to the NEOs in 2012 under the 2009 Plan and which are subject to the second performance period consisting of calendar year 2013. These amounts do not include the other half of the performance units that were granted in 2012, which were subject to the now completed first performance period consisting of calendar year 2012, because we placed last in total shareholder return among the eleven peer group companies for the first performance period and, consequently, 0% of those performance units were earned.

- (6) Represents the estimated value of the outstanding performance units held by each NEO as of December 31, 2012, which are subject to that grant's second performance period consisting calendar year 2013. At the end of the second performance period, between 0% and 200% of these performance units could be earned, based on the relative placement of our total stockholder return within a peer group consisting of eleven other companies. If any performance units are earned for the performance period, the NEO will be paid a cash

**Table of Contents**

amount equal to the earned percentage of his or her performance units multiplied by the closing price of our common stock on the last trading day of the performance period. The amounts shown above represent an estimated value of these performance units as of December 31, 2012, assuming that 100% will be earned (which is one-half of the maximum 200% possible), which amounts are not necessarily indicative of what the payout percent earned will actually be at the end of the second performance period. For a more detailed description of these performance units, see *Elements of Compensation Performance Units* under *Compensation Discussion and Analysis* above.

**2012 Option Exercises and Stock Vested**

The following table sets forth certain information regarding options and stock awards exercised and vested, respectively, during 2012 for the NEOs:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)(1)	Value Realized on Vesting (\$)(2)
Richard J. Alario			455,365	\$ 7,311,687
T. M. Whichard III			117,694	\$ 1,699,880
Newton W. Wilson III			179,680	\$ 2,888,197
Kim B. Clarke			100,940	\$ 1,613,102
Kimberly R. Frye			93,667	\$ 1,482,430

- (1) Represents the number of shares of restricted stock and performance units held by the NEOs that vested during 2012.
- (2) The value realized on vesting of restricted stock was calculated as the number of shares acquired on vesting (including shares withheld for tax withholding purposes) multiplied by the market value of our common stock on each respective vesting date. Market value is determined in accordance with the terms of the applicable incentive plan under which the restricted stock was granted, and, in the table above, was either (i) the closing price of our common stock on the NYSE for vesting dates that were trading days or (ii) the average of Friday and Monday closing prices on the NYSE for vesting dates that were on a weekend. The amounts in this column also reflect the value realized on the payout of performance units, which was calculated as the number of performance units that were subject to the second performance period granted in 2010 multiplied by \$17.06, which was the closing price of our common stock on February 29, 2012. For more information on these performance units, see *2012 Compensation Results and Decisions Performance Units* under *Compensation Discussion and Analysis* above.

**Table of Contents****Payments Upon Termination or Change of Control**

The following tables reflect the potential payments to which the NEOs would be entitled upon termination of employment on December 31, 2012. The closing price of a share of our common stock on December 31, 2012, the last trading day of the year, was \$6.95. The actual amounts to be paid out to executives upon termination can only be determined at the time of each NEO's separation from Key.

Name	Non-Renewal(1)	For Cause or Voluntary Resignation(2)	Death(3)	Disability(4)	Without Cause or For Good Reason(5)	Change of Control and Termination(6)
<b>Richard J. Alario</b>						
Cash Severance(7)	\$ 1,786,400			\$ 2,679,600	\$ 2,679,600	\$ 5,274,600
Restricted Stock(8)	\$ 3,370,972		\$ 3,370,972	\$ 3,370,972	\$ 3,370,972	\$ 3,370,972
Options and SARs(9)						
Phantom Shares(10)						
Performance Units(11)	\$ 336,401		\$ 336,401	\$ 336,401	\$ 336,401	\$ 336,401
Health & Welfare(12)	\$ 184,130		\$ 137,124	\$ 184,130	\$ 184,130	\$ 184,130
Excise Tax Gross-Ups(13)	n/a	n/a	n/a	n/a	n/a	
<b>Total Benefit</b>	<b>\$ 5,677,903</b>		<b>\$ 3,844,497</b>	<b>\$ 6,571,103</b>	<b>\$ 6,571,103</b>	<b>\$ 9,166,103</b>

Name	Non-Renewal(1)	For Cause or Voluntary Resignation(2)	Death(3)	Disability(4)	Without Cause or For Good Reason(5)	Change of Control and Termination(6)
<b>T. M. Whichard III</b>						
Cash Severance	\$ 780,000			\$ 390,000	\$ 780,000	\$ 2,106,000
Restricted Stock(8)	\$ 1,296,425		\$ 1,296,425	\$ 1,296,425	\$ 1,296,425	\$ 1,296,425
Options and SARs(9)						
Phantom Shares(10)						
Performance Units(11)	\$ 109,504		\$ 109,504	\$ 109,504	\$ 109,504	\$ 109,504
Health & Welfare(12)	\$ 49,735		\$ 47,072	\$ 49,735	\$ 49,735	\$ 49,735
Excise Tax Gross-Ups(13)	n/a	n/a	n/a	n/a	n/a	
<b>Total Benefit</b>	<b>\$ 2,235,664</b>		<b>\$ 1,453,001</b>	<b>\$ 1,845,664</b>	<b>\$ 2,235,664</b>	<b>\$ 3,561,664</b>

Name	Non-Renewal(1)	For Cause or Voluntary Resignation(2)	Death(3)	Disability(4)	Without Cause or For Good Reason(5)	Change of Control and Termination(6)
<b>Newton W. Wilson III</b>						
Cash Severance	\$ 964,000			\$ 482,000	\$ 964,000	\$ 2,892,000
Restricted Stock(8)	\$ 1,387,651		\$ 1,387,651	\$ 1,387,651	\$ 1,387,651	\$ 1,387,651
Options and SARs(9)						
Phantom Shares(10)						
Performance Units(11)	\$ 141,516		\$ 141,516	\$ 141,516	\$ 141,516	\$ 141,516
Health & Welfare(12)	\$ 53,691		\$ 44,970	\$ 53,691	\$ 53,691	\$ 53,691
Excise Tax Gross-Ups(13)	n/a	n/a	n/a	n/a	n/a	
<b>Total Benefit</b>	<b>\$ 2,546,858</b>		<b>\$ 1,574,137</b>	<b>\$ 2,064,858</b>	<b>\$ 2,546,858</b>	<b>\$ 4,474,858</b>



**Table of Contents**

Name	Non-Renewal(1)	For Cause or Voluntary Resignation(2)	Death(3)	Disability(4)	Without Cause or For Good Reason(5)	Change of Control and Termination(6)
<b>Kim B. Clarke</b>						
Cash Severance	\$ 686,000			\$ 343,000	\$ 686,000	\$ 2,058,000
Restricted Stock(8)	\$ 818,710		\$ 818,710	\$ 818,710	\$ 818,710	\$ 818,710
Options and SARs(9)						
Phantom Shares(10)						
Performance Units(11)	\$ 81,537		\$ 81,537	\$ 81,537	\$ 81,537	\$ 81,537
Health & Welfare(12)	\$ 46,037		\$ 43,472	\$ 46,037	\$ 46,037	\$ 46,037
Excise Tax Gross-Ups(13)	n/a	n/a	n/a	n/a	n/a	
<b>Total Benefit</b>	<b>\$ 1,632,285</b>		<b>\$ 943,719</b>	<b>\$ 1,289,285</b>	<b>\$ 1,632,285</b>	<b>\$ 3,004,285</b>

Name	Non-Renewal(1)	For Cause or Voluntary Resignation(2)	Death(3)	Disability(4)	Without Cause or For Good Reason(5)	Change of Control and Termination(6)
<b>Kimberly R. Frye</b>						
Cash Severance	\$ 636,000			\$ 318,000	\$ 636,000	\$ 1,908,000
Restricted Stock(8)	\$ 710,957		\$ 710,957	\$ 710,957	\$ 710,957	\$ 710,957
Options and SARs(9)						
Phantom Shares(10)						
Performance Units(11)	\$ 67,387		\$ 67,387	\$ 67,387	\$ 67,387	\$ 67,387
Health & Welfare(12)	\$ 21,455		\$ 19,034	\$ 21,455	\$ 21,455	\$ 21,455
Excise Tax Gross-Ups(13)	n/a	n/a	n/a	n/a	n/a	
<b>Total Benefit</b>	<b>\$ 1,435,799</b>		<b>\$ 797,378</b>	<b>\$ 1,117,799</b>	<b>\$ 1,435,799</b>	<b>\$ 2,707,799</b>

- (1) Represents compensation payable if Key does not renew the NEO's employment agreement after the initial term or any extension of the agreement.
- (2) Represents compensation payable if Key terminates the NEO's employment for Cause or the NEO otherwise resigns without Good Reason as defined in the respective employment agreements.
- (3) Represents compensation due to the NEO's estate upon his or her death.
- (4) Represents compensation payable to the NEO upon termination following determination of NEO's permanent disability.
- (5) Represents compensation due to the NEO if terminated by Key without Cause or if the NEO resigns for Good Reason, as each such term is defined in the respective employment agreements.
- (6) Represents payments due to termination in connection with a change of control (as defined in the respective employment agreements). The cash severance is due in a lump sum payment upon termination within one year following a change of control, and equals three times the sum of the NEO's base salary and target annual bonus. The equity compensation reflects the vesting of unvested restricted stock (see footnote 8 below), although such vesting would occur solely upon a change of control regardless of whether the NEO's employment is terminated in connection with the change of control.
- (7)

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Cash severance payable to Mr. Alario includes a cash payment described under *Elements of Severance Payments* below, plus an automobile allowance of \$13,200 per year and advisory fees of \$15,000 per year for such number of years for which Mr. Alario would be entitled to severance under each listed scenario. See also footnotes 2 and 5 to the table under *Perquisites* above.

- (8) Represents the value of restricted stock determined by multiplying the number of awards vesting upon a change of control by \$6.95, the closing price of our common stock on December 31, 2012. For all of the NEOs, all of their unvested shares of restricted stock would have vested in each scenario other than termination for cause or voluntary resignation.
- (9) No value is associated with stock options and SARs because such awards held by the NEOs were 100% vested on December 31, 2012.

**Table of Contents**

- (10) No value is associated with phantom shares because no NEO held phantom shares on December 31, 2012.
- (11) Represents the value of performance units determined by multiplying the number of awards vesting upon a change of control by \$6.95, the closing price of our common stock on December 31, 2012. For all of the NEOs, all of their unvested performance units would have vested in each scenario other than termination for cause or voluntary resignation. See footnote 6 to the table under *2012 Outstanding Equity Awards at Fiscal Year-End* above for more information regarding how the estimated value of the performance units was determined as of December 31, 2012.
- (12) For all of the NEOs, the amounts include life insurance and long-term disability premiums (except in the case of termination of employment as a result of death), medical insurance, estimated out-of-pocket medical and other expenses based on the amount of such expenses during 2012, assuming such benefits continue after termination for 36 months for Mr. Alario and 24 months for Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye. Although Mr. Whichard did not receive payments attributable to reimbursement of out-of-pocket medical expenses during 2012, for purposes of this table, an amount was estimated for Mr. Whichard equal to the average of the 2012 payments received by the other NEOs to whom reimbursements were made. Mr. Wilson did not participate in the health care plan during 2012; however, for the purposes of this table, an amount was estimated for Mr. Wilson equal to his prior year premium plus the average of the other four NEO's year-over-year increase.
- (13) All the NEOs are entitled to a Section 280G excise tax gross-up payment under their employment agreements. Mr. Alario is entitled to a full gross-up benefit. However, for Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye, if it is determined that the NEO is otherwise entitled to a gross-up payment, the NEO's total parachute payments may be reduced if it is determined that the reduction in the total parachute payments would not give rise to any excise tax and the reduced parachute payments would not be less than 90% of the total parachute payments before such reduction.

None of the NEOs would be subject to excise tax in connection with change of control benefits.

As described above, on March 25, 2013, Mr. Whichard retired, effective immediately, as Senior Vice President and Chief Financial Officer. He will remain an employee of the Company until June 24, 2013. In connection with his departure, (i) Mr. Whichard will receive \$780,000 payable over the following 24 months and certain other benefits and (ii) Mr. Whichard's unvested equity and outstanding performance units will vest, all in accordance with the terms of his employment agreement.

***Elements of Severance Payments***

Key has entered into employment agreements with each NEO that provide for certain payments upon termination depending upon the circumstances of the NEO's separation from Key, as summarized below.

***Cash Severance***

If, during the term of Mr. Alario's employment agreement, he is terminated by Key for any reason other than for Cause (as defined in his employment agreement), or if he terminates his employment for Good Reason (as defined in his employment agreement), Mr. Alario will be entitled to severance compensation in an aggregate amount, generally equal to three times his base salary in effect at the time of termination, payable in equal installments over a 36-month period following termination. If Mr. Alario's employment is terminated because Key does not renew his employment agreement, Mr. Alario is entitled to the greater of one year's base salary then in effect or the highest multiple of base salary in effect for non-renewal under any other executive officer's employment agreement in effect at the time of non-renewal. However, Mr. Alario would only be able to increase the severance above one year's salary if such other executive officer's employment agreement was also either in effect on the commencement date of Mr. Alario's agreement or later approved by the Compensation Committee after the commencement date of his agreement. For the year ended December 31, 2012, he would have been entitled to an amount equal to two times his base salary.

## **Table of Contents**

For Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye, if, during the term of any such NEO's employment agreement, the NEO is terminated by Key for any reason other than disability or for Cause (as defined in the employment agreements), including non-renewal of the NEO's employment agreement or if the NEO terminates his or her employment for Good Reason (as defined in each employment agreement), the NEO will be entitled to severance compensation in an aggregate amount equal to two times the NEO's base salary in effect at the time of termination, payable in equal installments over a 24-month period following termination. If any of these four NEOs is terminated for disability, such NEO will be entitled to severance compensation in an aggregate amount equal to one times the NEO's base salary in effect at the time of termination payable in equal installments over a 12-month period following termination. None of Mr. Whichard, Mr. Wilson, Ms. Clarke or Ms. Frye is entitled to cash severance compensation upon his or her death.

For each of the NEOs, each of their respective employment agreements specifies that if termination is within one year following a change of control of Key, the severance compensation will be an amount equal to three times their respective base salary then in effect plus an amount equal to three times their respective annual target cash bonus, and will be payable in one lump sum on the effective date of the termination.

### *Equity-Based Incentives*

Equity-based incentives include restricted stock, stock options, performance units and SARs. For all of the NEOs, all equity-based incentives immediately vest upon a change of control of Key. For Mr. Alario, Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye, if any such NEO is terminated by Key for any reason other than for Cause, or if the NEO terminates his or her employment for Good Reason (as defined in each employment agreement) or following a change of control of Key, any equity-based incentives held by the NEO that have not vested prior to the termination date shall immediately vest and, for stock options and SARs, such awards shall remain exercisable until, with respect to Mr. Alario, the earlier of the third anniversary date of the termination or the stated expiration date of the equity-based incentive, and with respect to Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye, until the earlier of the first anniversary date of the termination or the stated expiration date of the equity-based incentive.

### *Health & Welfare*

If Mr. Alario, Mr. Whichard, Mr. Wilson, Ms. Clarke or Ms. Frye terminates his or her employment for Good Reason (as defined in each employment agreement) or following a change of control or Key terminates his or her employment for any reason other than for Cause, including non-renewal, the NEO will continue to receive the benefits that he or she was receiving at Key's expense prior to such termination until the earlier of (i) 24 months with respect to Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye, or 36 months with respect to Mr. Alario, (ii) the last date of eligibility under the applicable benefits or (iii) the date on which the NEO commences full-time employment with another employer that provides equivalent benefits; provided that, if termination occurs for any reason within one year following a change of control or in anticipation of a change of control, in lieu of such benefits, Key will pay an amount in cash equal to the aggregate reasonable expenses Key would incur to pay such benefits. In the event of Mr. Alario's death, his spouse and dependents are entitled to up to 36 months of coverage after the date of termination. With respect to the other NEOs, the executives' spouses and dependents are entitled to up to 24 months of coverage after the date of termination. In addition, Messrs. Alario and Wilson are entitled to term-life insurance for such period that they are otherwise entitled to severance under their respective employment agreements.

### *Tax Gross-Ups*

If any of Mr. Alario, Mr. Whichard, Mr. Wilson, Ms. Clarke or Ms. Frye is subject to the tax imposed due to unfavorable tax treatment under Section 4999 of the Code because of any termination-related payments, Key has agreed to reimburse the NEO for such tax on an after-tax basis. However, for Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye, if it is determined that he or she is otherwise entitled to a gross-up payment, the total

**Table of Contents**

parachute payments may be reduced if it is determined that the reduction in the total parachute payments would not give rise to any excise tax and the reduced parachute payments would not be less than 90% of the total parachute payments before such reduction. In addition, if any of Mr. Alario, Mr. Whichard, Mr. Wilson, Ms. Clarke or Ms. Frye is subject to unfavorable tax treatment under Section 409A of the Code because of any nonqualified deferred compensation payments, Key has agreed to reimburse the NEO for such tax on an after-tax basis. As part of a comprehensive review of executive compensation conducted in 2011, the Compensation Committee confirmed that it was appropriate to honor and preserve the existing provisions related to the excise tax reimbursement for Key's current executive officers, including the NEOs. However, the Compensation Committee determined that Key will not include any reimbursement provisions for taxes under either Section 409A or Section 4999 of the Code in employment agreements for executives on a prospective basis.

**Director Compensation**

In May 2012, Longnecker conducted a formal review of Board compensation. The analysis indicated that Key should maintain the same amount of fees paid to each non-employee director, but increase the value of its annual grant to the members of the Board. However, the Board determined not to make any adjustments in director compensation at that time.

As a result, the non-employee directors received a fee equal to \$75,000 per year for 2012. The non-employee directors also received an annual award of our common stock having a fair market value of \$175,000, and are reimbursed for travel and other expenses directly associated with Key business. Each non-employee director received the annual award of common stock in 2012. Additionally, the chair of the CGN Committee received an additional \$10,000 per year for his service, the chair of the Compensation Committee received an additional \$12,500 per year for his service, and the chair of the Audit Committee received an additional \$20,000 per year. The Lead Director received an additional \$25,000 per year. All other members of the Audit Committee (other than the chair) received an additional \$10,000 per year.

The benchmarks used for the Board compensation survey were the same companies used in the executive compensation review.

Third parties other than Longnecker provided advice and consulting services related to all other non-executive compensation.

The following table discloses the cash and equity awards earned, paid or awarded, as the case may be, to each of our non-employee directors during the fiscal year ended December 31, 2012:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	Total (\$)
Lynn R. Coleman	\$ 75,000	\$ 175,002	\$ 250,002
Kevin P. Collins	\$ 85,000	\$ 175,002	\$ 260,002
William D. Fertig	\$ 85,000	\$ 175,002	\$ 260,002
W. Phillip Marcum	\$ 75,000	\$ 175,002	\$ 250,002
Ralph S. Michael III	\$ 110,000	\$ 175,002	\$ 285,002
William F. Owens	\$ 85,000	\$ 175,002	\$ 260,002
Robert K. Reeves	\$ 87,500	\$ 175,002	\$ 262,502
J. Robinson West	\$ 75,000	\$ 175,002	\$ 250,002
Arlene M. Yocum	\$ 95,000	\$ 175,002	\$ 270,002

- (1) Represents the grant date fair value calculated in accordance with FASB ASC Topic 718 with respect to the 2012 annual stock awards granted to the non-employee directors under the 2012 Plan, which consisted of 17,007 shares of common stock granted to each non-employee director. Although the annual stock awards are based on a number of shares having a fair market value of \$175,000, because fractional shares are not granted, the amount recognized is slightly different.

**Table of Contents**

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee consists of Messrs. Reeves (chair), Fertig, Marcum and West, all of whom are independent non-employee directors. None of the Compensation Committee members has served as an officer or employee of Key, and none of Key's executive officers has served as a member of a compensation committee or board of directors of any other entity, which has an executive officer serving as a member of the Board.

**Report of the Compensation Committee**

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with our management. Based on this review, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

By the Compensation Committee of the Board of Directors of Key Energy Services, Inc.

Robert K. Reeves, Chair

William D. Fertig

W. Phillip Marcum

J. Robinson West

**Table of Contents**

**PROPOSAL 2 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED**

**PUBLIC ACCOUNTING FIRM**

Our Audit Committee has selected the firm of Grant Thornton LLP as our independent registered public accounting firm for the current fiscal year. Grant Thornton LLP has served as our independent registered public accounting firm since December 1, 2006. Although stockholder approval of the selection of Grant Thornton LLP is not required by law, the Board believes that it is advisable to give stockholders an opportunity to ratify this selection. If this proposal is not approved at our 2012 annual meeting, our Audit Committee will review its future selection of Grant Thornton LLP in light of that voting result. Representatives of Grant Thornton LLP are expected to be present at the annual meeting and will have the opportunity to make a statement if they desire to do so and will also be available to respond to appropriate questions from stockholders.

**Board Recommendation**

**The Board of Directors believes that the selection of Grant Thornton LLP as our independent registered public accounting firm is in our best interests and the best interests of our stockholders and therefore recommends a vote FOR this proposal.**

**Table of Contents**

**PROPOSAL 3 ADVISORY VOTE ON COMPENSATION OF THE NAMED EXECUTIVE OFFICERS**

We are providing our stockholders with the opportunity to cast an advisory vote on the compensation of our Named Executive Officers. As described in the *Compensation Discussion and Analysis* section under *Executive Compensation* above, our executive compensation program is designed to attract, motivate and retain our NEOs, who are critical to our success. Please read the *Compensation Discussion and Analysis* section under *Executive Compensation* above, as well as the Summary Compensation Table and other related compensation tables and narrative disclosure, for additional details about our executive compensation, including information about the fiscal year 2012 compensation of our NEOs. The Compensation Committee periodically reviews the compensation for our NEOs to ensure it achieves the desired goals of aligning our executive compensation structure with our stockholders' interest and current market practices.

We are asking our stockholders to indicate their support for our NEO compensation as described in this proxy statement. This proposal gives our stockholders the opportunity to express their views on our NEOs' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the philosophy, policies and practices described in this proxy statement.

While we intend to carefully consider the voting results of this proposal, the final vote is advisory, and therefore not binding on us, the Compensation Committee or the Board. The Board and Compensation Committee value the opinions of our stockholders, and to the extent there is any significant vote against the NEO compensation as disclosed in this proxy statement, we will consider our stockholders' concerns, and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Accordingly, we ask our stockholders to vote on the following resolution at the Annual Meeting:

RESOLVED, that the compensation paid to the Company's Named Executive Officers, as disclosed herein pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, accompanying compensation tables and related narrative discussion, is hereby APPROVED.

**Board Recommendation**

**The Board of Directors believes that approval of the compensation of our Named Executive Officers as disclosed in this proxy statement is in our best interests and the best interests of our stockholders and therefore recommends a vote FOR this proposal, on an advisory basis.**



**Table of Contents**

**OTHER MATTERS**

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and persons who beneficially own more than 10% of a registered class of our equity securities, to file initial reports of ownership on Form 3 and changes in ownership on Forms 4 or 5 with the SEC. Such officers, directors and 10% stockholders also are required by SEC rules to furnish Key with copies of all Section 16(a) reports they file. Based solely on its review of the copies of such forms furnished or available to us, we believe that our directors, executive officers and 10% stockholders complied with all Section 16(a) filing requirements for the fiscal year ended December 31, 2012. In making these statements, we have relied upon an examination of the copies of Forms 3, 4 and 5, and amendments thereto, and the written representations of our directors, executive officers and 10% stockholders.

**Stockholder Communications to the Board of Directors**

The Board will give appropriate attention to written communications that are submitted by stockholders and other interested parties and will respond if and as appropriate. Persons with concerns about Key may communicate those concerns in writing addressed to a particular non-employee director or to the non-employee directors as a group. Management will forward all relevant communications to the Board.

Absent unusual circumstances, the Chairman of the Board (if an independent director) or the Lead Director, subject to advice and assistance from the General Counsel, will be primarily responsible for monitoring communications from stockholders and other interested parties and provide copies or summaries of such communications to the other directors as he or she considers appropriate. The Chairman of the Board (if an independent director), the Lead Director, or otherwise the Chairman of the CGN Committee also serves as the presiding director at all executive sessions of our non-employee directors.

In general, communications relating to corporate governance and corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we receive repetitive or duplicative communications. Stockholders who wish to send communications on any topic to the Board should address such communications to Board of Directors, c/o Kimberly R. Frye, Senior Vice President, General Counsel and Secretary, Key Energy Services, Inc., 1301 McKinney Street, Suite 1800, Houston, Texas 77010.

**Stockholder Proposals for the 2014 Annual Meeting**

Proposals which stockholders intend to be included in our proxy material for presentation at the 2014 Annual Meeting of Stockholders must be received by the Corporate Secretary, Key Energy Services, Inc., 1301 McKinney Street, Suite 1800, Houston, Texas 77010 by December 4, 2013, and must otherwise comply with rules promulgated by the Securities and Exchange Commission in order to be eligible for inclusion in the proxy material for the 2014 Annual Meeting.

**Table of Contents**

If a stockholder desires to bring a matter before the meeting which is not the subject of a proposal meeting the Securities and Exchange Commission proxy rule requirements for inclusion in the proxy statement, the stockholder must follow procedures outlined in our bylaws in order to personally present the proposal at the meeting. One of the procedural requirements in the bylaws is timely notice in writing of the business the stockholder proposes to bring before the meeting. Notice of business proposed to be brought before the 2014 Annual Meeting must be received by the Corporate Secretary at our principal executive office in Houston, Texas no earlier than January 23, 2014 and no later than February 22, 2014, unless the date of the 2014 Annual Meeting is advanced by more than 20 days or delayed by more than 60 days from the anniversary date of the 2013 Annual Meeting, in which event the bylaws provide different notice requirements.

By Order of the Board of Directors,  
KIMBERLY R. FRYE  
Corporate Secretary

April 3, 2013

**OUR BOARD OF DIRECTORS ENCOURAGES STOCKHOLDERS TO ATTEND THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND, YOU ARE URGED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE OR VOTE OVER THE INTERNET OR BY TELEPHONE. A PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE MEETING AND YOUR COOPERATION WILL BE APPRECIATED.**

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**Table of Contents**

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**KEY ENERGY SERVICES, INC.**

**ANNUAL MEETING OF STOCKHOLDERS**

**To be held on May 23, 2013 at 9:00 a.m., Central Daylight Time**

**This Proxy is solicited on behalf of the Board of Directors of Key Energy Services, Inc. (the Company ).**

The undersigned, having received notice of the annual meeting of stockholders and the proxy statement therefor and revoking all prior proxies, hereby appoints each of Richard J. Alario and Kimberly R. Frye (with full power of substitution), as proxies of the undersigned, to attend the annual meeting of stockholders of the Company to be held on Thursday, May 23, 2013, at the Inn at the Ballpark, 1520 Texas Avenue, Houston, Texas, and any adjourned or postponed session thereof, and there to vote and act as indicated upon the matters on the reverse side in respect of all shares of common stock which the undersigned would be entitled to vote or act upon, with all powers the undersigned would possess if personally present.

You may revoke or change your proxy at any time before it is voted at the annual meeting by (i) giving written notice of revocation to the Secretary of the Company; (ii) submitting another properly completed proxy bearing a later date; (iii) submitting a later dated proxy through the Internet or by telephone prior to the close of the Internet voting facility or the telephone voting facility; or (iv) voting in person at the annual meeting. If the undersigned hold(s) any of the shares of common stock in a fiduciary, custodial or joint capacity or capacities, this proxy is signed by the undersigned in every such capacity as well as individually.

**(Continued and to be signed on the reverse side)**

**COMMENTS:**

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Table of Contents

ANNUAL MEETING OF STOCKHOLDERS OF  
**KEY ENERGY SERVICES, INC.**

May 23, 2013

**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:**

The Notice of Meeting, proxy statement and proxy card

are available at <http://www.keyenergy.com/investor/proxy>.

You can also reach this web address by going to <http://www.keyenergy.com>,

then clicking on Investor Relations and then clicking on 2013 Annual Meeting of Stockholders.

Please sign, date and mail  
your proxy card in the  
envelope provided as soon  
as possible.

i Please detach along perforated line and mail in the envelope provided. i

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**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x**

1. To elect the following nominees as Class I directors of the Company, for a term of three (3) years expiring at the annual stockholders meeting in 2016:

	FOR	AGAINST	ABSTAIN
Lynn R. Coleman	..	..	..
Kevin P. Collins	..	..	..
W. Phillip Marcum	..	..	..
William F. Owens	..	..	..

2. To ratify the appointment by the Audit Committee of the Board of Directors of Grant Thornton LLP, an independent registered public accounting firm, as the Company's independent auditors for the fiscal year ending December 31, 2013.

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3. To approve, on an advisory basis, the compensation of the Company's named executive officers.

**The shares of common stock of Key Energy Services, Inc. (the Company) represented by this proxy, when properly executed, will be voted as directed by the undersigned for the proposals herein proposed by the Company. IF THIS PROXY IS PROPERLY EXECUTED BUT NO DIRECTION IS SPECIFIED, THIS PROXY WILL BE VOTED FOR THE FOUR NOMINEES FOR DIRECTOR AND FOR PROPOSALS 2 AND 3. In their discretion, the proxies are authorized to vote upon any other business that may properly come before the annual meeting or any adjournment thereof.**

**TO INCLUDE ANY COMMENTS, USE THE COMMENTS BOX ON THE REVERSE SIDE OF THIS CARD.**

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

..

Signature of Stockholder

Date:

Signature of Stockholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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**Table of Contents**

ANNUAL MEETING OF STOCKHOLDERS OF  
**KEY ENERGY SERVICES, INC.**

May 23, 2013



**PROXY VOTING INSTRUCTIONS**

**INTERNET** - Access **www.voteproxy.com** and follow the on-screen instructions. Have your proxy card available when you access the web page.

**TELEPHONE** - Call toll-free **1-800-PROXIES** (1-800-776-9437) in the United States or **1-718-921-8500** from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

**COMPANY NUMBER**

Vote online/phone until 11:59 PM EDT the day before the meeting.

**MAIL** - Sign, date and mail your proxy card in the envelope provided as soon as possible.

**ACCOUNT NUMBER**

**IN PERSON** - You may vote your shares in person by attending the Annual Meeting.

**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:** The Notice of Meeting, proxy statement and proxy card are available at <http://www.keyenergy.com/investor/proxy>. You can also reach this web address by going to <http://www.keyenergy.com>, then clicking on Investor Relations and then clicking on 2013 Annual Meeting of Stockholders.

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i Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet. i

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**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x**

1. To elect the following nominees as Class I directors of the Company, for a term of three (3) years expiring at the annual stockholders meeting in 2016:

	FOR	AGAINST	ABSTAIN
Lynn R. Coleman	..	..	..
Kevin P. Collins	..	..	..
W. Phillip Marcum	..	..	..
William F. Owens	..	..	..
2. To ratify the appointment by the Audit Committee of the Board of Directors of Grant Thornton LLP, an independent registered public accounting firm, as the Company's independent auditors for the fiscal year ending December 31, 2013.	..	..	..

3. To approve, on an advisory basis, the compensation of the Company's named executive officers.

**The shares of common stock of Key Energy Services, Inc. (the Company) represented by this proxy, when properly executed, will be voted as directed by the undersigned for the proposals herein proposed by the Company. IF THIS PROXY IS PROPERLY EXECUTED BUT NO DIRECTION IS SPECIFIED, THIS PROXY WILL BE VOTED FOR THE FOUR NOMINEES FOR DIRECTOR AND FOR PROPOSALS 2 AND 3. In their discretion, the proxies are authorized to vote upon any other business that may properly come before the annual meeting or any adjournment thereof.**

**TO INCLUDE ANY COMMENTS, USE THE COMMENTS BOX ON THE REVERSE SIDE OF THIS CARD.**

To change the address on your account, please check the box at right and indicate your new address in the address space above. ..  
Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder \_\_\_\_\_ Date: \_\_\_\_\_ Signature of Stockholder \_\_\_\_\_ Date: \_\_\_\_\_  
**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person. n