

KEY ENERGY SERVICES INC
Form DEF 14A
April 16, 2008

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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)

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

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount Previously Paid:

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Dear Stockholder:

You are cordially invited to attend the 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. (Texas Time) on Thursday, June 5, 2008.

The notice of meeting and proxy statement that follow this letter describe the business to be conducted at the annual meeting, including the election of four Class II Directors.

Your vote is important. Whether or not you plan to attend the annual meeting, 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

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KEY ENERGY SERVICES, INC.
1301 McKinney Street
Suite 1800
Houston, Texas 77010

Proxy Statement for the 2008 Annual Meeting of Stockholders

To Be Held on June 5, 2008

This proxy statement contains information about the 2008 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, June 5, 2008 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 ("Board") for use at the annual meeting.

We are mailing our Annual Report to Stockholders for the year ended December 31, 2007 with these proxy materials on or about April 16, 2008.

IMPORTANT INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

- 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 April 7, 2008, the record date for our annual meeting. The number of outstanding shares entitled to vote at the meeting is 125,727,348 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.
- 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. 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. 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 U.S. and Canada, 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 mail 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.
- (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, unless the proxy is irrevocable and is coupled with an interest. 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 card and submit it as instructed above. Only your latest dated proxy card 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 if I don't return my proxy?

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 card or voting by ballot at the meeting. If your shares are held in "street name," your brokerage firm may under certain circumstances vote your shares even if you do not return your proxy. If you do not return a proxy card to your brokerage firm to vote your shares, your brokerage firm may, on routine matters, either vote your shares or leave your shares unvoted. Your brokerage firm cannot vote your shares on any matter that is not considered routine.

Proposal 1, the election of directors, and Proposal 2, ratification of the selection of our independent registered public accounting firm, are both considered routine matters. 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.

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 II Directors

The four nominees for director to receive the highest number of votes FOR election will be elected as directors. Abstentions are not counted for purposes of electing directors. 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 1. You may:

vote FOR all nominees; or

vote FOR one, two or three nominees and WITHHOLD your vote from the other nominee(s).

Votes that are withheld will not be included in the vote tally for the election of directors and will not affect the results of the vote.

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 the 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 reconsider its selection of Grant Thornton LLP.

- Q. Are there other matters to be voted on at the meeting?**
- A.** We do not know of any other matters that may come before the meeting other than the election of four Class II directors and the ratification of the selection of our independent registered public accounting firm. 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 expect to report the voting results in our Quarterly Report on Form 10-Q for the quarter ending June 30, 2008, which we anticipate filing with the Securities and Exchange Commission, or SEC, in August 2008.
- 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 D.F. King 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 \$6,500 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 the 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 which 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.

Throughout this proxy statement, the individuals who served as our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") during fiscal 2007, and each of our three other most highly compensated executive officers are referred to as the "Named Executive Officers" or "NEOs."

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Set forth below is certain information with respect to beneficial ownership of the common stock as of March 31, 2008 by each Named Executive Officer and director, and all executive officers and directors as a group.

Name of Beneficial Owner	Number of Shares(1)	Percentage of Outstanding Shares(2)
Richard J. Alario(3)	555,407	*
David J. Breazzano(4)	337,571	*
Lynn R. Coleman	5,000	*
Kevin P. Collins(5)	272,643	*
William D. Fertig(6)	122,571	*
W. Phillip Marcum(7)	272,643	*
Ralph S. Michael, III(8)	46,371	*
William F. Owens	11,365	*
Robert K. Reeves	5,704	*
J. Robinson West(9)	64,627	*
Arlene M. Yocum	5,000	*
William M. Austin(10)	268,643	*
Newton W. Wilson III(11)	282,354	*
Kim B. Clarke(12)	91,029	*
Don D. Weinheimer	41,119	*
Current Directors and Executive Officers as a group (19 persons)	2,700,662	2.14%

*
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.
- (2) An individual's percentage ownership of common stock outstanding is based on 126,005,998 shares of our common stock outstanding as of March 31, 2008. 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 133,333 shares issuable upon the exercise of vested options.
- (4) Includes 250,000 shares issuable upon the exercise of vested options.
- (5) Includes 250,000 shares issuable upon the exercise of vested options.
- (6) Includes 100,000 shares issuable upon the exercise of vested options.
- (7) Includes 250,000 shares issuable upon the exercise of vested options.
- (8) Includes 20,000 shares issuable upon the exercise of vested options. Also includes 700 shares held jointly with Mr. Michael's spouse.
- (9) Includes 50,000 shares issuable upon the exercise of vested options.

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- (10) Includes 100,000 shares issuable upon the exercise of vested options.
- (11) Includes 125,000 shares issuable upon the exercise of vested options.
- (12) Includes 20,000 shares issuable upon the exercise of vested options.

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The following table sets forth, as reported through March 31, 2008, certain information regarding the beneficial ownership of common stock by each person, other than the Company's directors or executive officers, who is known by the Company to own beneficially more than 5% of the outstanding shares of common stock.

Name and Address of Beneficial Owner	Shares Beneficially Owned	
	Number	Percent
Guardian Life Insurance Company of America(1) 388 Market Street, Suite 1700 San Francisco, CA 9411	15,204,370	11.5%
MHR Fund Management LLC(2) 40 West 57 th Street, 24 th Floor New York, NY 10019	19,564,500	14.7%
Wells Fargo & Company(3) 420 Montgomery Street San Francisco, CA 94163	7,007,323	5.28%

- (1) As reported on Amendment No. 2 to Schedule 13G/A filed with the SEC on February 8, 2008, The Guardian Life Insurance Company of America ("Guardian") holds 15,204,370 shares. As a result of being subsidiaries of Guardian, Guardian Investor Services LLC and RS Investment Management Co, LLC may be deemed to be indirect beneficial owners of the shares held by Guardian.
- (2) As reported on Amendment No. 3 to Schedule 13G/A filed with the SEC on February 14, 2008 on behalf of MHR Institutional Partners III LP, MHR Institutional Advisors III LLC, MHR Fund Management LLC and Mark H. Rachesky, M.D. relating to an aggregate amount of 19,564,500 shares held for the accounts of MHR Capital Partners Master Account LP, MHR Capital Partners (100) LP, MHR Institutional Partners II LP, MHR Institutional Partners IIA LP and MHR Institutional Partners III LP.
- (3) As reported on Schedule 13G filed with the SEC on February 6, 2008 by Wells Fargo & Company ("Wells Fargo") relating to the aggregate beneficial ownership of 7,007,323 shares owned by Wells Fargo and any of its subsidiaries named therein.

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 eleven. There are four Class I Directors, four Class II Directors and three Class III Directors. At this year's annual meeting, the terms of our Class II Directors will expire. The Class II Directors elected at this year's annual meeting will serve three year terms expiring at the annual meeting in 2011, or until their successors are elected and qualified. The Class I and Class III Directors will serve until the annual meetings of stockholders to be held in 2010 and 2009, respectively, and until their respective successors are elected and qualified.

The persons named in the enclosed proxy will vote to elect as Class II Directors David J. Breazzano, William D. Fertig, Robert K. Reeves and J. Robinson West, unless you indicate on your proxy card that your shares should be withheld from one or more of the nominees. Our Corporate Governance and Nominating Committee has recommended, and the Board has nominated, each of the nominees for election as Class II directors. Each of the nominees is currently a member of the Board. Mr. Reeves has been nominated for election as a director for the first time. The CEO and another executive officer recommended Mr. Reeves, together with two other candidates, to the Corporate Governance and Nominating Committee. He was appointed to our Board as a new director in October 2007.

If they are elected, Messrs. Breazzano, Fertig, Reeves and West will each hold office until our annual meeting of stockholders to be held in 2011 and until his successor is duly elected and qualified. Each of the nominees has indicated his 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 or directors. Mr. Reeves is an executive officer of one of our customers. See "Corporate Governance Certain Relationships and Related Transactions."

Below are the names, ages and certain other information of each member of the Board, including the nominees for election as Class II Directors. Information with respect to the number of shares of common stock beneficially owned by each director as of March 31, 2008 appears above under the heading "Stock Ownership of Certain Beneficial Owners and Management."

Nominees for Terms Expiring in 2008 (Class II Directors)

David J. Breazzano, age 51, was named Lead Director in August 2004. Mr. Breazzano is president and one of the founding principals of DDJ Capital Management, LLC, an investment management firm established in 1996. He holds a BA from Union College, where he serves on the Board of Trustees, and an MBA from Cornell University.

William D. Fertig, age 51, has been Co-Chairman and Chief Investment Officer of Context Capital Management, an investment advisory firm since 2002. Mr. Fertig was a Principal and a Senior Managing Director of McMahan Securities from 1990 through April 2002. 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.

Robert K. Reeves, age 50, is Senior Vice President, General Counsel and Chief Administrative Officer of Anadarko Petroleum Corporation. 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. He holds a BA and JD from Louisiana State University.

J. Robinson West, age 61, is the founder, and since 1984 has served as Chairman and a director, 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, and serves as Chairman of the Board of the United States Institute of Peace. Mr. West is also a director of Cheniere Energy, Inc. He holds a BA from the University of North Carolina at Chapel Hill and a JD from Temple University Law School.

Directors Whose Terms Expire in 2010 (Class I Directors)

Lynn R. Coleman, age 68, was a partner in the energy practice of the law firm of Skadden, Arps, Slate, Meagher and Flom LLP from 1981 until his retirement 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. In March 2008, Mr. Coleman was appointed to the Supervisory Board of Lyondell Basell Industries, a Luxembourg entity, which is a large chemical company with operations in the U.S. and internationally. He holds an LLB degree from the University of Texas and a BA from Abilene Christian College.

Kevin P. Collins, age 57, has been Managing Member of The Old Hill Company LLC since 1997. 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., or WellTech, from January 1994 until March 1996, when WellTech was merged into the Company. Mr. Collins is also a director of The Penn Traffic Company, PowerSecure International, Inc. and Contractors Holding, Inc. He holds BS and MBA degrees from the University of Minnesota. Mr. Collins is a CFA Charterholder.

W. Phillip Marcum, age 64, was a director of WellTech, Inc. from January 1994 until March 1996, when WellTech was merged into the Company. From October 1995 until March 1996, Mr. Marcum was the non-executory Chairman of the Board of Directors of WellTech. He was Chairman of the Board, President and Chief Executive Officer of Metrotek Technologies, Inc., formerly known as Marcum Natural Gas Services, Inc., from January 1991 to April 2007 when he retired. The company is now known as PowerSecure International, Inc. Mr. Marcum also serves on the board of directors of ADA-ES, a Denver, Colorado based, publicly-held company. He is presently a principal in MG Advisors, LLC. He holds a BBA from Texas Tech University.

William F. Owens, age 57, served as Governor of Colorado from 1999 to 2007. Mr. Owens served as a member of the Colorado state house of representatives from 1982 to 1988, as a member of the state senate from 1988 to 1994 and as Colorado state treasurer from 1994 to 1998. Prior to his public service, Mr. Owens was a consultant with Touche Ross & Co., now Deloitte & Touche, LLP. In addition to his public service, Mr. Owens served for more than 10 years as Executive Director of the Colorado Petroleum Association, which represented 400 energy firms doing business in the Rockies. He holds a master's degree in public administration from the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin and an undergraduate degree from Stephen F. Austin University.

Directors Whose Terms Expire in 2009 (Class III Directors)

Richard J. Alario, age 53, joined the Company as President and Chief Operating Officer effective January 1, 2004. On May 1, 2004, Mr. Alario 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 the Company, Mr. Alario was employed by BJ 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 serving as its Executive Vice President. He currently serves as director and chairman of the Health, Safety, Security and Environmental Committee of the National Ocean Industries Association. Mr. Alario holds a BA from Louisiana State University.

Ralph S. Michael, III, age 53, was President and Chief Operating Officer of the Ohio Casualty Insurance Company from July 25, 2005 until its sale on August 24, 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. From 1996 to 2001, he served as Executive Vice President and Chief Executive Officer of PNC Corporate Banking. He was a director of Integrated Alarm Services Group from January 2003 until April 2007 and a director of T.H.E. Inc. from 1991 to 2004. He has been a director of Cincinnati Bengals, Inc. since April 2005. Mr. Michael also served as a director of Ohio Casualty Corporation from April 2002 until July 25, 2005. Mr. Michael began serving as a director of Friedman, Billings, Ramsey Group, Inc. in June 2006 and as a director of AK Steel Corporation in July 2007. He holds a BA from Stanford University and an MBA from the Graduate School of Management of the University of California Los Angeles.

Arlene M. Yocum, age 50, has been Executive Vice President, Managing Executive of Client Service and Distribution for PNC's Wealth Management and Institutional Investment Groups since 2003. Prior to that she served as an Executive Vice President of PNC's Institutional Investment Group from 2000 to 2003. Ms. Yocum is a director of Protection One, Inc. She holds a JD from Villanova School of Law and a BA from Dickinson College.

Board Recommendation

The Board of Directors believes that approval of the election of David J. Breazzano, William D. Fertig, Robert K. Reeves and J. Robinson West to serve as Class II directors is in our best interests and the best interests of our stockholders and therefore recommends a vote FOR each of the nominees.

CORPORATE GOVERNANCE

General

This section describes key corporate governance guidelines and practices that we have adopted. Complete copies of our corporate governance guidelines, committee charters and codes of conduct described below are available on our website at 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 Guidelines are director qualifications and responsibilities, Board committee responsibilities, 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 Corporate Governance and Nominating Committee is responsible for assessing and periodically reviewing the adequacy of these Guidelines and recommending proposed changes to the Board, as appropriate. The Guidelines are posted on the Company's website at www.keyenergy.com. The Company will provide Guidelines in print, free of charge, to stockholders who request them.

Director Independence

Under applicable rules of the New York Stock Exchange, or 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 the Company. In addition, all members of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee are also 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 the President and Chief Executive Officer, each of our current directors is independent within the meaning of the foregoing rules. Further, the Board considered Mr. Reeves' position as an executive officer with one of our customers, Anadarko Petroleum Corporation, or Anadarko, and determined that the relationship between Anadarko and the Company does not affect Mr. Reeves' independence. See "Corporate Governance - Certain Relationships and Related Transactions."

Director Nomination Process

In considering whether to recommend any particular candidate for inclusion in the Board's slate of recommended director nominees, our Corporate Governance and Nominating 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. These criteria include the candidate's integrity, business acumen, a commitment to understand our business and industry, experience, conflicts of interest and the ability to act in the interests of all stockholders. The 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.

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 his or her name will be included in the Company's proxy card for the next annual meeting. Stockholders also have the right under our by-laws to directly nominate director candidates, without any action or recommendation on the part of the Committee or the Board, by following the procedures set forth under Stockholders Proposals for the 2009 Annual Meeting (which are included on page 44 of this proxy statement). Candidates nominated by stockholders in accordance with procedures set forth in the by-laws will not be included in the Company's proxy card for the next annual meeting.

Board Meetings and Attendance

The Board held six meetings, either in person or by teleconference, during the year ended December 31, 2007. 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 2007 annual meeting, and we expect substantially all of our directors to attend the 2008 annual meeting.

Board Committees

The Board has established four standing committees: Audit, Compensation, Corporate Governance and Nominating and Executive. Current copies of the charters of each of Audit, Compensation and Corporate Governance and Nominating committees are posted on the Corporate Governance section of our website, 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, 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, or the Exchange Act.

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 accounting firm any audit problems or difficulties and management's response;

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

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preparing the Audit Committee report required by SEC rules (which is included on page 16 of this proxy statement).

On October 26, 2007, the composition of the Audit Committee was reconstituted. The current members of our Audit Committee are Messrs. Collins, Michael and Owens and Ms. Yocum. Mr. Marcum served as a member of the Audit Committee until October 25, 2007. Mr. Michael is the Chair of the Committee. All members of Key's 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 Mr. Michael satisfies the definition of "audit committee financial expert," and has designated Mr. Michael as an "audit committee financial expert."

The Audit Committee held nine meetings in 2007. 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. 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 Committee, for the payment of compensation to our independent registered public accounting firm and to any legal, accounting or other experts retained by the Committee and for the payment of the Committee's ordinary administrative expenses necessary and appropriate for carrying out the duties of the Committee.

The charter of our Audit Committee can be accessed on the Corporate Governance section of our website, www.keyenergy.com.

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 Chief Executive Officer, or 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.

On October 26, 2007, the composition of the Compensation Committee was reconstituted. The current members of the Compensation Committee are Messrs. Breazzano, Fertig, Marcum, Reeves and West, all of whom are independent, non-management members of the Board. Mr. Breazzano is the Chair of the Committee. Through October 2007, the members of the Compensation Committee were Messrs. Breazzano, Fertig, Michael and West. No Compensation Committee member participates in any of the Company's employee compensation programs other than prior grants under the Key Energy Group, Inc. 1997 Incentive Plan, which plan expired in November 2007. The Compensation Committee members will participate in the Key Energy Services, Inc. 2007 Cash and Equity Incentive Plan (the "2007 Incentive Plan"). The Compensation Committee held nine meetings in 2007.

The Compensation Committee has the 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, 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 Committee.

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The charter of our Compensation Committee can be accessed on the Corporate Governance section of our website, www.keyenergy.com.

Corporate Governance and Nominating Committee

The responsibilities of the Corporate Governance and Nominating 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 Corporate Governance and Nominating Committee is composed entirely of independent directors, as that term is defined by applicable NYSE rules. On October 26, 2007, the composition of the Corporate Governance and Nominating Committee was reconstituted when Lynn R. Coleman was appointed to the Committee. The current members of the Corporate Governance and Nominating Committee are Messrs. Breazzano, Coleman, Fertig and West. Mr. Fertig is the Chair of the Committee. The Corporate Governance and Nominating Committee held four meetings in 2007.

The Corporate Governance and Nominating 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 Corporate Governance and Nominating Committee can be accessed on the Corporate Governance section of our website, www.keyenergy.com.

Executive Committee

Effective October 26, 2007, the Executive Committee's membership was modified to consist of the CEO and Chairman, the lead director and each chairperson of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee of the Board of Directors. The current members of the Executive Committee are Messrs. Alario, Breazzano, Fertig and Michael. The Executive Committee held four meetings in 2007. The Executive Committee will only act in place of the Board of Directors 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.

Code of Business Conduct and Code of Business Conduct and Ethics 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 and Ethics for Members of the Board of Directors. Among other matters, the Code of Business Conduct and the Board Code of Business Conduct 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 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 Board Code of Business Conduct are available on our website at www.keyenergy.com. We will post on

our Internet website all waivers to or amendments of our Code of Business Conduct and the Board Code of Business Conduct that are required to be disclosed by applicable law and the NYSE listing standards.

Report of the Audit Committee

The Audit Committee has reviewed our audited financial statements for the fiscal year ended December 31, 2007 and has discussed these financial statements with our management and independent registered public accounting firm.

The Audit Committee has also received from, and discussed with, Grant Thornton LLP, our independent registered public accounting firm, various communications that our 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).

Our independent registered public