

KEY ENERGY SERVICES INC

Form DEF 14A

March 31, 2010

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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)

Payment of Filing Fee (Check the appropriate box):

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

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

(2) Aggregate number of securities to which transaction applies:

(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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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Dear Stockholder:

You are cordially invited to attend the 2010 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 20, 2010.

The notice of meeting and proxy statement that follow this letter describe the business to be conducted at the 2010 Annual Meeting of Stockholders, including the election of four Class I directors.

Your vote is important. Whether or not you plan to attend the 2010 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

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

NOTICE OF 2010 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 20, 2010

To our stockholders:

We invite you to our 2010 Annual Meeting of Stockholders, which will be held at the Inn at the Ballpark, 1520 Texas Avenue, Houston, Texas, on Thursday, May 20, 2010 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 for the ensuing three years;
- (2) To ratify the selection of Grant Thornton LLP as our independent registered public accounting firm for the current fiscal year; and
- (3) 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 Class I director nominees and FOR the ratification of the selection of Grant Thornton LLP as our independent registered public accounting firm for the current fiscal year.

Stockholders of record at the close of business on March 8, 2010, the record date for the 2010 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
March 31, 2010

Important Notice Regarding the Availability of Proxy Materials for the 2010 Annual Meeting of Stockholders to Be Held on May 20, 2010:

This Proxy Statement, along with the Annual Report to security holders for the fiscal year ended December 31, 2009, are available on our website at www.keyenergy.com by clicking on

Investor Relations and then clicking on *2010 Annual Meeting of Stockholders*.

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

Proxy Statement for the 2010 Annual Meeting of Stockholders

To Be Held on May 20, 2010

This proxy statement contains information about the 2010 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 20, 2010 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 2009 Annual Report to Stockholders for the year ended December 31, 2009 with these proxy materials on or about March 31, 2010.

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 8, 2010, the record date for our annual meeting. The number of outstanding shares entitled to vote at the meeting is 125,318,368 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 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.

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(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. 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 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 or voting by ballot at the meeting.

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. Proposal 1, the election of directors, is not a routine matter. As such, your broker may not vote on this matter without instructions from you. If you do not give your broker instructions on how to vote your shares on Proposal 1, the broker will return the proxy card without voting on this 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.

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- 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. 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**
- Directors are elected by a plurality vote, meaning that the four nominees for director to receive the highest number of votes FOR election will be elected as directors. 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, as well as votes to ABSTAIN, are not counted for purposes of electing directors. You may:
- vote FOR all nominees; or
 - vote FOR one, two or three of the 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, unless a nominee receives no votes FOR his election, they 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 matters that may come before the meeting other than the election of four Class I 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.** **A.**

Where can I find the voting results?

We expect to 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.

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- 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 The Altman Group, Inc. 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 \$6,000 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.

Throughout this proxy statement, the individuals who served as our Chief Executive Officer (CEO), Chief Financial Officer (CFO), interim Principal Financial Officer during fiscal year 2009, 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 our common stock as of March 8, 2010 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)	1,490,993	1.19%
David J. Breazzano(4)	366,600	*
Lynn R. Coleman	24,029	*
Kevin P. Collins(5)	132,953	*
William D. Fertig(6)	137,690	*
W. Phillip Marcum(7)	132,953	*
Ralph S. Michael, III(8)	70,400	*
William F. Owens	30,394	*
Robert K. Reeves	24,733	*
J. Robinson West(9)	38,937	*
Arlene M. Yocum	24,029	*
William M. Austin(10)	95,560	*
Kim B. Clarke(11)	315,313	*
J. Marshall Dodson(12)	140,561	*
Kimberly R. Frye(13)	283,354	*
T. M. Whichard III(14)	266,822	*
Newton W. Wilson III(15)	709,385	*
Current Directors and Executive Officers as a group (22 persons, including the persons listed above)(16)	5,018,387	4.00%

* 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 8, 2010.
- (2) An individual's percentage ownership of common stock outstanding is based on 125,318,368 shares of our common stock outstanding as of March 8, 2010. 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. Includes 856,720 shares of restricted stock that have not vested.
- (4) Includes 100,000 shares of common stock issuable upon the exercise of vested options.
- (5) Includes 50,000 shares of common stock issuable upon the exercise of vested options.

- (6) Includes 100,000 shares of common stock issuable upon the exercise of vested options.
- (7) Includes 50,000 shares of common stock issuable upon the exercise of vested options.
- (8) Includes 20,000 shares of common stock issuable upon the exercise of vested options. Also includes 2,000 shares held jointly with Mr. Michael s spouse.
- (9) Includes 10,000 shares of common stock issuable upon the exercise of vested options.
- (10) Mr. Austin resigned from Key on February 6, 2009.

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- (11) Includes 72,250 shares of common stock issuable upon the exercise of vested options. Also includes 187,586 shares of restricted stock that have not vested.
- (12) Includes 42,000 shares of common stock issuable upon the exercise of vested options. Also includes 74,908 shares of restricted stock that have not vested.
- (13) Includes 88,825 shares of common stock issuable upon the exercise of vested options. Also includes 165,167 shares of restricted stock that have not vested.
- (14) Represents 266,822 shares of restricted stock that have not vested.
- (15) Includes 197,250 shares of common stock issuable upon the exercise of vested options. Also includes 336,775 shares of restricted stock that have not vested.
- (16) Includes 1,419,745 shares of common stock issuable upon the exercise of vested options. Also includes 2,272,345 shares of restricted stock that have not vested.

The following table sets forth, as of March 8, 2010, 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 common stock.

Name and Address of Beneficial Owner	Shares Beneficially Owned	
	Number	Percent(1)
Guardian Life Insurance Company of America(2) 388 Market Street, Suite 1700 San Francisco, CA 9411	7,902,179	6.31%
MHR Fund Management LLC(3) 40 West 57th Street, 24th Floor New York, NY 10019	16,666,419	13.30%
Wells Fargo & Company(4) 420 Montgomery Street San Francisco, CA 94163	7,007,323	5.59%
Blackrock, Inc.(5) 55 East 52nd Street New York, NY 10055	11,201,919	8.94%

- (1) The percentage ownership of common stock outstanding is based on 125,318,368 shares of our common stock outstanding as of March 8, 2010.
- (2) As reported on Amendment No. 4 to Schedule 13G/A filed with the SEC on February 11, 2010 on behalf of The Guardian Life Insurance Company of America, Guardian Investor Services LLC and RS Investment Management Co. LLC relating to shared voting and disposition power over an aggregate amount of 7,902,179 shares.
- (3)

As reported on Amendment No. 4 to Schedule 13G/A filed with the SEC on February 12, 2010 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 16,666,419 shares held for the accounts of MHR Institutional Partners II LP, MHR Institutional Partners IIA LP and MHR Institutional Partners III LP.

- (4) As reported on Schedule 13G filed with the SEC on February 6, 2008 by Wells Fargo & Company relating to the aggregate beneficial ownership of 7,007,323 shares owned by Wells Fargo & Company and any of its subsidiaries named therein.
- (5) As reported on Schedule 13G filed with the SEC on January 29, 2010 by BlackRock, Inc. relating to the sole voting and disposition power over an aggregate amount of 11,201,919 shares held by BlackRock, Inc. following its acquisition of Barclays Global Investors, NA and certain of its affiliates on December 1, 2009.

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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 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 2013, 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 2011 and 2012, respectively, until their respective successors are elected and qualified, or the earlier of their death, resignation or removal.

The persons named in the enclosed proxy 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 withheld from 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 2007.

If they are elected, Messrs. Coleman, Collins, Marcum and Owens will each hold office until our annual meeting of stockholders in 2013, until his successor is duly elected and qualified, or the earlier of his death, resignation or removal. 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 and our directors. Robert K. Reeves, a Class II director, is an executive officer of one of our customers. For additional information regarding this relationship, see the discussion below under the heading *Certain Relationships and Related Transactions* under *Corporate Governance*.

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 8, 2010 appears above under the heading *Stock Ownership of Certain Beneficial Owners and Management*.

Nominees for Term Expiring 2010 (Class I Directors)

Lynn R. Coleman, age 70, 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. In March 2008, Mr. Coleman was appointed to the Supervisory Board of Lyondell Basell Industries, a large chemical company with operations in the U.S. and internationally. 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 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 for the spring semester of 2010 to offer 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

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served as managing partner and in similar management positions over other large groups of attorneys. His responsibilities 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 59, 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 is also a director of The Penn Traffic Company; PowerSecure International, Inc.; Antioch Company LLC; and Applied Natural Gas Fuels, Inc. (formerly PNG Ventures, Inc.). 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 (he holds an MBA and is a Chartered Financial Analyst), 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 66, 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-executory 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 Dallas, Texas based 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.

William F. Owens, age 59, 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 member of the Colorado State Senate and the Colorado State House of Representatives. 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 Partner of Front Range Resources, a Denver-based land and water development firm. He is also currently a Senior Advisor for PCL Construction Enterprises, Inc. Mr. Owens serves on the boards of Cloud Peak Energy Inc.; Keating Capital, Inc.; and FESCO Transport Group (a Russian listed company which owns and operates ports, railroads and container ships). Previously, from 2007 through 2009, he served on the board of Highlands Acquisition Corp. Mr. Owens holds a master's degree in Public Affairs from the University of Texas at Austin and earned his BS 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 2011 (Class II Directors)

David J. Breazzano, age 53, has been a member of the Board since October 1997. Mr. Breazzano is President and Chief Investment Officer, and one of the founding principals, of DDJ Capital Management, LLC, an investment management firm established in 1996. Prior to 1996, Mr. Breazzano had over 15 years of investment management

experience, including as the portfolio manager of the Fidelity Capital & Income mutual fund from 1990 to 1996. He holds a BA from Union College, where he serves on the Board of Trustees, and an MBA from Cornell University. We believe Mr. Breazzano's qualifications to serve on our

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Board include his accounting, finance and investment expertise, including his investment experience in the oil and gas industry.

William D. Fertig, age 53, 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. 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 52, 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. 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 63, has been a member of the Board since November 2001. He is the founder and CEO, and since 1984 has served as 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, and serves as Chairman of the Board of the United States Institute of Peace. Mr. West is also a director of Cheniere Energy, Inc. and Magellan Petroleum Corporation. 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 being a trained attorney.

Directors Whose Term Expires in 2012 (Class III Directors)

Richard J. Alario, age 55, 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 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. He is also a director of Seahawk Drilling, Inc., serving as Chair of its Compensation Committee and as a member of its Corporate Governance Committee. Mr. Alario holds a BA from Louisiana State University. We believe Mr. Alario's qualifications to serve on our Board include his extensive experience over 30 years in the oilfield services business, including his service as Key's President and Chief Executive Officer.

Ralph S. Michael, III, age 55, has been a member of the Board since March 2003. 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

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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 Capital Markets Corporation; 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 have designated him as an audit committee financial expert.

Arlene M. Yocum, age 52, 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 is a director of Protection One, Inc. 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 being a trained 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 our best interests and the best interests of our stockholders and therefore recommends a vote FOR each of the nominees.

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CORPORATE GOVERNANCE

General

This section describes the principal corporate governance guidelines and practices that we have adopted. 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. 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, 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. 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, 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 Key. In addition, all members of the Audit Committee, Compensation Committee and CGN 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 our President and CEO, 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, and determined that the relationship between Anadarko and Key does not affect Mr. Reeves' independence. For additional information regarding this relationship, see the discussion below under the heading *Certain Relationships and Related Transactions*.

Board Leadership Structure

We operate under a leadership structure in which our CEO also serves as Chairman of the Board. Our Board is comprised of Mr. Alario, the CEO and Chairman of the Board, and ten independent 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-management directors and management, chair the executive sessions of non-management directors and consult with the Chairman of the Board on agendas for Board meetings and other matters. Our Corporate Governance Guidelines also provide that non-management directors will meet in executive session on a regular basis without management present.

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 is comprised solely of independent directors, and each committee has a separate chair.

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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.

However, 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 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 any 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. 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 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 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 his or her name will be included in 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 2011 Annual Meeting* below. Candidates nominated by stockholders in accordance with procedures set forth in the bylaws will not be included in our proxy card for the next annual meeting.

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.

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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 2010, we intend 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.

Board Meetings and Attendance

The Board held seven meetings, either in person or by teleconference, during the year ended December 31, 2009. 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, other than Mr. Owens, attended the 2009 annual meeting, and we expect substantially all of our directors to attend the 2010 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 Audit, Compensation and CGN 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 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;

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).

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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. She became chair effective October 1, 2009. Previously, Mr. Michael was the chair. Mr. Michael stepped down as chair of the Audit Committee when he replaced Mr. Breazzano as Lead Director effective October 1, 2009. All members of the Audit Committee would 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.

Prior to her appointment as chair of the Audit Committee, the Board determined that Ms. Yocum satisfies the definition of audit committee financial expert, and designated Ms. Yocum as an audit committee financial expert. Previously, the Board had determined that Mr. Michael satisfied the definition of audit committee financial expert, and designated him as an audit committee financial expert as well.

The Audit Committee held eight meetings in 2009. 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 shall 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. Mr. Michael currently serves on our Audit Committee and the audit committees of the following other three public companies: AK Steel Corporation; Arlington Asset Investment Corporation; and, most recently since mid-2009, FBR Capital Markets Corporation. The Board determined on June 4, 2009, prior to his becoming a member of FBR Capital Markets' audit committee, that Mr. Michael's simultaneous service on four public companies' audit

committees would not impair his ability to effectively serve on our Audit Committee.

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

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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. Breazzano, Fertig, Marcum, Reeves and West, all of whom are independent, non-management 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 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 eight meetings in 2009.

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, 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.

Equity Award Committee

Mr. Alario is the chair and sole member of the Equity Award Committee, which the Board established on June 4, 2009. 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

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employees who are not executive officers, usually in connection with new hires and promotions. During 2009, the Compensation Committee authorized the Equity Award Committee to make grants up to an aggregate of 140,000 stock options and/or shares of restricted stock to eligible employees, but no more than 15,000 per grant or in the aggregate to any single employee during a twelve month period. For 2010, the Compensation Committee reset this authority to allow grants up to an aggregate of 150,000 stock options and/or shares of restricted stock to eligible employees during this calendar year, but no more than 20,000 per grant or in the aggregate to any single employee during a twelve month period. 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 is composed entirely of independent directors, as that term is defined by applicable NYSE rules. The current members of the CGN Committee are Messrs. Fertig, Breazzano, Coleman, Marcum and West. Mr. Fertig is the chair of the CGN Committee. The CGN Committee held three meetings in 2009.

The CGN 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.

Executive Committee

The Executive Committee's membership consists of the CEO and Chairman of the Board, the Lead Director and each chair 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. Ms. Yocum became a member of the Executive Committee when she replaced Mr. Michael as chair of the Audit Committee effective October 1, 2009. Mr. Breazzano served on the Executive Committee until Mr. Michael replaced him as Lead Director effective October 1, 2009. The Executive Committee held no meetings in 2009.

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 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. We will post on our Internet

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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 our audited financial statements for the fiscal year ended December 31, 2009 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 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 our Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2009.

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 59, 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 IROC Energy Services Corp., an Alberta-based oilfield services company in which Key has an equity investment, as well as OOO Geostream Services Group and AlMansoori-Key Energy Services, LLC, both international oilfield services joint venture entities of Key based in the Russian Federation and the United Arab Emirates, respectively. Mr. Wilson received a BBA from Southern Methodist University and a JD from the University of Texas.

T. M. Trey Whichard III, age 51, Senior Vice President and Chief Financial Officer. Mr. Whichard joined Key as its Senior Vice President and Chief Financial Officer on March 26, 2009. 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 in 1981.

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Kim B. Clarke, age 54, 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 as well as 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. 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 41, 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.

J. Marshall Dodson, age 39, Vice President and Treasurer. 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. 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 Dynege, Inc., an electric energy production and services company, from 2002 to August 2005, most recently serving as Managing Director and Controller, Dynege 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 Dynege, Inc. He also currently serves as a director of OOO Geostream Services Group, an oilfield services company in the Russian Federation in which Key holds a 50% interest. Mr. Dodson is a Certified Public Accountant and received a BBA from the University of Texas at Austin in 1993.

Don D. Weinheimer, age 51, Senior Vice President, Production Services. Mr. Weinheimer joined Key on October 2, 2006 as Senior Vice President of Business Development, Technology and Strategic Planning. On October 1, 2008, his role and title changed to Senior Vice President of Product Development, Strategic Planning and Quality and, on November 1, 2009, he was promoted to Senior Vice President, Production Services. Prior to joining Key, Mr. Weinheimer was with Halliburton Company, a global energy services company, serving as Vice President of Technology Globalization within its Energy Services Group from July 2006 to October 2006 and as Vice President of Innovation and Marketing in its Production Optimization Division from July 2004 to June 2006. Prior to that, Mr. Weinheimer served in various capacities within Halliburton and divisions of Halliburton since 1981. Mr. Weinheimer has over 28 years of industry experience, including international operational and business development experience in both the Middle East and Algeria. Mr. Weinheimer also currently serves as a director of OOO Geostream Services Group and AlMansoori-Key Energy Services, LLC, both international oilfield services joint venture entities of Key based in the Russian Federation and the United Arab Emirates, respectively. Mr. Weinheimer earned his BS degree in Agricultural Engineering from Texas A&M University.

Dennis C. Douglas, age 56, Senior Vice President, Fluid Management Services. Mr. Douglas joined Key as Operations Manager for the L.A. Basin in California in February 1997 in connection with Key's acquisition of Dawson Production Services, Inc. He was promoted to Sales Manager for Key's California Division in May 1998 and served in that capacity until he was promoted to Division Manager for California in October 2000. In June 2008, he was

promoted to Group Vice President of Key's Western Division until his promotion to Senior Vice President of Key's U.S. Marketplace in October 2008. Mr. Douglas served in that capacity until he was promoted to Senior Vice President, Fluid Management Services on November 1, 2009. Prior to joining Key, Mr. Douglas worked during 1997 at Dawson Production Services, Inc. as Operations Manager. From

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1993 to 1997, he worked at Nabors Well Service as Rig Supervisor. Prior to that, Mr. Douglas managed Homco's rental and fishing tool division in California from 1989 until Homco merged with Weatherford International in 1993.

F. Doug McDonald, age 56, Senior Vice President, Marketplace Business Development. Mr. McDonald joined Key as Gulf Coast Business Development Manager in February 2008. In December 2008, he was promoted to Senior Director of Rental Services and severed in that capacity until May 2009 when he was promoted to Vice President, Fishing and Rental Services. Effective November 1, 2009, Mr. McDonald was appointed to his current position of Senior Vice President, Marketplace Business Development. Prior to joining Key, from September 1984 until January 2008, he worked at Weatherford International, an oil and gas services and equipment company, the last three years of which he served in the position of Manager of U.S. Managed Accounts. He is also a veteran United States Army officer. Mr. McDonald received his BA from the University of Louisiana at Monroe in 1975.

Thomas R. Pipes, age 54, Senior Vice President, Well Service Rig Operations. Mr. Pipes originally joined Key in 1982 and was promoted to Senior Vice President of Well Service Rig Operations in October 2008 in connection with Key's realignment of its U.S. operating segments that was implemented in early 2009. From May 2007 until his promotion to Senior Vice President, Mr. Pipes held the position of Vice President of Business Development. Previously, from September 2002 to May 2007, he served as Group Vice President for Key's Permian Basin Operations, and from July 1992 to October 1998 was Key's Area Manager in Odessa, Texas.

Ike C. Smith, age 35, Vice President and Controller. Mr. Smith was promoted to Vice President and Controller in June 2009, and serves as principal accounting officer. Previously, from January 2009 to June 2009, Mr. Smith served as Vice President of Audit Services, overseeing Key's internal audit functions. Prior to that, from the time Mr. Smith joined Key on January 2, 2008 through January 2, 2009, he served as Vice President of Finance, Internal Controls. Before joining Key, he worked for Horizon Offshore, Inc., a marine construction company providing pipeline installation and platform assembly and salvage to the oil and gas industry, where he served as Corporate Controller from August 2004 through December 2007 and as SEC Reporting Manager from June 2002 through August 2004. He also worked at Arthur Andersen LLP from 1998 until 2002 in the Assurance and Business Advisory practice. Mr. Smith also currently serves as a director of OOO Geostream Services Group and AIMansoori-Key Energy Services, LLC, both international oilfield services joint venture entities of Key based in the Russian Federation and the United Arab Emirates, respectively. Mr. Smith is a CPA and received a BBA in Accounting from Sam Houston State University in 1998.

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:

	2009(1)	2008(2)
Audit fees	\$ 3,356,311	\$ 3,890,102
Audit-related fees		
Tax fees		
All other fees		
Total	\$ 3,356,311	\$ 3,890,102

- (1) Includes fees of \$43,500 for the 2009 statutory audit for our Argentina subsidiary and fees of \$118,400 for the 2008 and statutory 2009 audits of our Mexico subsidiary.
- (2) Includes fees of \$43,033 for 2008 statutory audit for our Argentina subsidiary that was performed in 2008, and fees of \$15,185 for audit of our Mexico subsidiary that was performed in 2008.

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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 versus 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.

Certain Relationships and Related Transactions

We have an Affiliate Transaction Policy which 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 (other than 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 on an annual basis that our directors and executive officers each complete a 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. If a change occurs in certain information required to be disclosed in the questionnaire after it is completed, the director or executive

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officer must immediately report this to Key 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 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.

Family Relationships

Craig Owen, the son-in-law of Jim Flynt (our former Senior Vice President of Western Region who resigned in January 2009), served, and continues to serve, as Area Director in our Rental Services line of business. For fiscal year ended December 31, 2009, Mr. Owen received approximately \$205,571 in salary, bonus and benefits. Mr. Owen has been with Key since 1980. We believe that Mr. Owen's compensation is comparable to what he would receive absent his relationship to Mr. Flynt.

Darren Flynt, the son of Jim Flynt, served, and continues to serve, as a Business Process Manager for Key. For fiscal year ended December 31, 2009, Darren Flynt received approximately \$153,358 in salary, bonus and benefits. We believe that Darren Flynt's compensation is comparable to what he would receive absent his relationship to Jim Flynt.

Lee James, the brother-in-law of Phil Coyne (our former Senior Vice President of Wireline Services who resigned in June 2009), served, and continues to serve, as a Senior Director of Wireline since July 2009, and prior to that during 2009, as a Technical Advisor. For fiscal year ended December 31, 2009, Mr. James received approximately \$120,750 in salary, bonus and benefits. We believe that Mr. James' compensation is comparable to what he would receive absent his relationship to Mr. Coyne.

The related party transactions with Craig Owen, Darren Flynt and Lee James have been previously disclosed, and all of the related party transactions with Craig Owen, Darren Flynt and Lee James have been approved under the Affiliate Transaction Policy and reaffirmed by the CGN Committee on February 24, 2009.

Board Member Relationships with Other Companies

Mr. Reeves joined the Board in October 2007 and is currently an executive officer with Anadarko Petroleum Corporation, one of our customers. During the fiscal year ended December 31, 2009, Anadarko purchased services from us for approximately \$13.6 million, which is less than 2% of both our revenue for 2009 and Anadarko's revenue for 2009. This relationship was reviewed and approved under the Affiliate Transaction Policy. The Board does not consider this amount to be material, and the relationship between Anadarko and Key does not otherwise affect Mr. Reeves' independence.

Payments to Board Members for Expired Stock Options

As previously disclosed, in April 2009, we entered into a Settlement Agreement and Release of Claims with each of Messrs. Collins and Marcum, two of our current directors. These agreements relate to expired stock options that Messrs. Collins and Marcum held for a total of 140,000 shares of common stock (70,000 shares held by each). The options expired unexercised during the period before Key became current with its financial statements, when there was not an effective registration statement or available exemption from registration under which to issue such shares. Pursuant to these agreements, we paid Messrs. Collins and Marcum cash amounts equal to \$194,974 each, and each of Messrs. Collins and Marcum fully released and forever discharged Key from any and against all claims they had or could have asserted with respect to their expired options.

The amount of the payments made to Messrs. Collins and Marcum under these agreements was determined consistent with the settlement calculations that were used in a previously disclosed class action lawsuit brought in September 2007 by a former employee, Belinda Taylor, on behalf of herself and similarly situated former employees who held stock options that expired unexercised during this same period.

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These payments and each Settlement Agreement and Release of Claims were reviewed and approved under the Affiliate Transaction Policy. The Board does not consider these arrangements to create a material relationship between Key and either of Mr. Collins or Mr. Marcum, or to otherwise affect the independence of either of Mr. Collins or Mr. Marcum.

Other Related Party Matters

On March 4, 2009, Mr. Fertig, one of our current directors, purchased, for \$161,950 on the open market, \$250,000 face value of our 8.375% senior notes. He subsequently sold these notes for \$218,438 on May 11, 2009. The 8.375% senior notes were issued by Key on November 29, 2007 and mature on December 1, 2014. This transaction was an open market purchase and sale to which we do not believe our Affiliate Transaction Policy is applicable, nor do we believe that it impacts Mr. Fertig's independence.

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INFORMATION ABOUT EXECUTIVE AND DIRECTOR COMPENSATION

Compensation Discussion and Analysis

Oversight of Executive Compensation Program

As described above under *Corporate Governance Board Committees Compensation Committee*, the Compensation Committee of our Board has responsibility 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.

During 2009, the Compensation Committee, in light of an economic downturn, took the following actions to maintain the link between senior executive pay and performance by:

providing increased flexibility in establishing future performance targets to measure success relative to a rapidly changing market;

reinforcing alignment of incentive pay with overall financial objectives and goals of Key;

insuring review of executive compensation by our independent compensation consultant; and

modifying long-term compensation to accommodate depressed stock prices.

Compensation Consultant

The Compensation Committee renewed its engagement with Longnecker & Associates as its independent compensation consultant to advise the Compensation Committee on all matters related to the senior executives compensation and general incentive compensation programs. Longnecker was initially retained by the Compensation Committee in May 2007.

Longnecker assists the Compensation Committee by providing comparative market data for senior executives on compensation practices and programs based on an analysis of peer competitors. Longnecker also provides guidance on industry best practices. During 2009, Longnecker advised the Compensation Committee in (i) designing and recommending individual grant levels for the 2009 long-term incentive awards for the senior executives in a down market; (ii) adjusting our incentive structure to respond to the uncertain economic climate; and (iii) developing a cash compensation structure in a volatile market.

The Compensation Committee reviews salary ranges for all senior executive positions annually. The last formal review by Longnecker for the Compensation Committee was completed in April 2008. The only increases in compensation that have occurred subsequent to this review have been in connection with job position changes. The review included total compensation for executives, including base salary, annual incentives, long-term incentives, and other forms of compensation such as pension value and nonqualified deferred compensation earnings. The review also assessed the competitiveness of each executive's compensation as compared to a specific peer group and other pertinent published surveys. Specifically, Longnecker evaluated where the total compensation for each executive stood relative to the 50th and 75th percentiles of a group of peer companies.

The benchmarks used for executive compensation comparisons in 2008 included companies in our industry with similar revenue and companies that we considered to be competing for the same level of

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executive talent. The following companies fit either one of those categories and were used in our peer group analysis:

Baker Hughes Inc.	Oil States International, Inc.
Basic Energy Services, Inc.	Patterson-UTI Energy, Inc.
Complete Production Services, Inc.	Pride International, Inc.
Grant Prideco, Inc.	Smith International Inc.
Grey Wolf, Inc.	Superior Well Services, Inc.
Helix Energy Solutions Group Inc.	Transocean Inc.
Noble Corporation	W-H Energy Services, Inc.
Oceaneering International	Weatherford International Ltd.

The recommendations of Longnecker, including the selection of the peer group, were reviewed with management in 2008 and adjusted by the Compensation Committee as appropriate to provide the most relevant information to the Compensation Committee.

In 2008, 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, *ERI Executive Compensation Assessor 2008*;

Mercer Human Resources Consulting, *2007 Mercer Benchmark Database Executive*;

Mercer Human Resources Consulting, *2007 Mercer Energy Survey*;

Watson Wyatt, *2007/2008 Top Management Compensation Regression analysis Report*;

Watson Wyatt, *2007/2008 Industry Report on Top Management Compensation*;

Towers Perrin, *2007 Oilfield Services Compensation Study*; and

WorldatWork, *2008 Salary Budget Survey*.

Based on its review of the compensation program, Longnecker recommended to the Compensation Committee that we (i) maintain the target for base salaries near the 50th percentile of the peer group, with some variation for different positions between the 50th and 75th percentiles; (ii) maintain the target for annual incentives near the 75th percentile of the peer group in order to emphasize performance; and (iii) provide targeted long-term incentive awards to align the interest of our executives with those of our stockholders and the long-term goals and objectives of Key. Longnecker provided recommendations for targeted long-term incentive award amounts and incentive vehicles to deliver the awards. Longnecker's recommendation was to provide each executive a combination of stock options and restricted stock in addition to base salary and bonus. Longnecker arrived at this long-term incentive award mix based upon (i) the prevalence of similar approaches among our peer group; (ii) the balancing of retention and motivation at the time of granting the awards; and (iii) modeling that indicated an effective use of awards available for grant and the minimization of dilution to stockholders. In connection with its overall recommendations to the Compensation Committee, Longnecker considered not only the external market, but also the internal environment affecting Key. Longnecker used this analysis, together with its perspective of required changes in light of market conditions, in advising the Compensation Committee during 2009.

In 2009, Longnecker conducted a formal review of Board compensation. Using the same peer group as the 2008 executive compensation survey, the analysis suggested that Key should increase its fees paid to its Lead Director and increase the value of its annual grant to all the members of the Board. However, both Longnecker and the Board determined that it would be inappropriate in the current environment to increase fees payable to the Board. Further, in response to the economic downturn, the Board, effective April 1, 2009, temporarily reduced its fees by 10%. See *Director Compensation* below for additional information regarding director fees.

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In 2007, Longnecker reviewed the NEOs' employment agreements and severance plans upon a change of control of Key. Advice and consulting for all other non-executive compensation is completed by third parties other than Longnecker.

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 CEO. 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 CEO, CFO, 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. 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.

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. Our 2009 compensation and incentive structure was designed to provide greater flexibility and therefore discretion in determining the achievement of incentive targets. This design was implemented to address the uncertainty of the overall market conditions.

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

attract and retain 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;

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

correlate a portion of management's compensation to measurable performance, including specific financial and operating goals, which are reflective of the current economic conditions;

evaluate and rate performance relative to the existing market conditions during the measurement period; and

set 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 do not provide the executives with incentives to engage in business or other activities that would threaten the value of Key or its stockholders.

The principal components of our executive compensation program are base salary, cash incentive bonuses and long-term incentive awards in the form of stock options and restricted stock. We blend these elements in order to formulate compensation packages which 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 that compensation is not the only manner in which we attract people to

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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.

Elements of Compensation

The total compensation and benefits program for our senior executives generally consists of the following components:

- base salaries;
- cash bonus incentive plan;
- discretionary cash bonuses;
- long-term equity-based incentive compensation;
- retirement, health and welfare benefits;
- perquisites; and
- certain post-termination payments.

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.

Other than Mr. Weinheimer, who received a 5% salary increase in 2009 in connection with the assumption of additional responsibilities, no other executive officer received a salary increase in 2009. Further, in February 2009, as part of our cost reduction efforts in response to the economic downturn, management recommended, and our Compensation Committee approved, a temporary pay reduction program. In accordance with this program, effective March 1, 2009, Mr. Alario's salary was reduced by 10%, Mr. Wilson's, Ms. Clarke's and Ms. Frye's salaries were reduced by 7% each, and all other officers, including Messrs. Weinheimer and Dodson, had their salaries reduced by 5%. Mr. Whichard, our new CFO who did not join Key until March 26, 2009, had his salary reduced by 7% of what it would have otherwise been under his employment agreement. All other corporate office employees' salaries or hours were also reduced by 5%. The effective pay reduction for each of Messrs. Wilson and Whichard, Ms. Clarke and Ms. Frye was 7.5%; however, for 2010 the salary will be correctly reduced by 7%. The pay reduction remains in effect for 2010 until such time as economic conditions improve to allow a return to previous levels. In addition to these salary decreases, our non-employee directors' fees have been temporarily reduced by 10% effective April 1, 2009. See *Director Compensation* below for additional information regarding directors' fees.

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. For 2009 and prior years, the performance goals were established on a semi-annual basis. For 2010, in consultation with Longnecker, management recommended, and the Compensation Committee approved, a cash bonus incentive plan that would be measured on an annual basis.

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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 goals include a financial target and other targets, such as safety targets, retention targets and some individual job-related targets. Each goal is weighted in terms of a percentage of the total bonus target.

Our financial performance target is tied to our financial business plan, which is approved by the Board. The Compensation Committee establishes a threshold and a target percentage of financial performance for the period. The threshold level of financial performance must be met in order to fund the incentive program. If the financial performance falls short of such threshold, then no incentive bonuses are awarded under the program regardless of goal achievement under the other non-financial measures. If the financial threshold is achieved, but less than 100% of the target is achieved, then the executive may receive an incremental credit with respect to the financial target. Assuming that the financial threshold is met, the executive can then receive credit in the other bonus measurements. The Compensation Committee reviews all performance goals at the beginning of the period and authorizes payment following the end of the period.

Each executive's bonus opportunity is initially reflected in the executive's employment agreement and subsequently reviewed at least annually. Under our incentive compensation program, the Compensation Committee has discretion to adjust targets, as well as individual awards, either positively or negatively.

2009 Cash Bonus Incentive Plan Performance Measurements

In 2009, in light of the difficulty in setting target formulas in what had become (and continued to be) a highly volatile and declining market, the Compensation Committee approved a revised incentive plan, both for the NEOs and other employees of Key, with guidelines for the Compensation Committee to use in determining what, if any, bonus should be paid for 2009. The intent was to provide a compensation plan with some retention value to executives who, working in a difficult environment, achieve budget. The incentive structure for 2009 still utilized the same measurement components as the previous plan. However, due to the inability to gauge future financial performance in the volatile market, the 2009 cash bonus incentive plan provided the Compensation Committee with greater discretion in measuring the achievement of the incentive targets, including achievement of financial targets. The established targets for performance for 2009, including the financial target, were considered guidelines in determining the actual performance of management during the economic downturn.

This discretion provided the Compensation Committee the ability to consider absolute and peer-relative performance of Key to assess the performance of the executives in determining whether they achieved the necessary level of performance to be compensated under the cash bonus incentive plan. The plan for 2009 provided increased flexibility for the Compensation Committee to exercise its discretion in adjusting targets up or down in response to future changing market conditions.

With negative earnings for most of 2009, we missed our financial performance target by almost 50% and, accordingly, the threshold level of financial performance required to fund the cash bonus incentive plan was not met. As such, no cash bonuses were paid in 2009 under the cash bonus incentive plan, even though we were successful in meeting our safety and turnover targets, as well as implementing certain cost cutting measures. The following measures were considered under the 2009 cash and bonus incentive plan:

EBITDA

The financial target was based on EBITDA; however, certain adjustments are made in the calculation of this performance measure for purposes of

determining the financial target achieved. We calculate this financial target as earnings (or net income) before interest, taxes, depreciation and amortization, but exclude (i) losses or gains on the sale of assets; (ii) losses or gains on early extinguishment of debt; and (iii) net other expenses or other income.

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<u>Safety</u>	This goal represents the improvement required, or desired result, in the Occupational Safety and Health Administration, or OSHA, recordable incident rate. OSHA recordable incident rates are determined by measuring the number of incidents, such as accidents or injuries, involving our employees. Incidents that are recorded include accidents or injuries potentially resulting in a fatality, an employee missing work, an employee having to switch to light duty work or an employee needing to have medical treatment.
<u>Employee Turnover</u>	The employee retention goal is used as an incentive to reduce employee turnover. The goal represents a specific percentage of improvement or a desired minimum in the number of employees who terminate their employment with Key from the prior period goal.
<u>Additional Individual Objectives</u>	Individual performance goals are based on individual objectives for each NEO specific to his or her area of expertise and oversight, 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 his or her direct supervisor, which in most cases for the NEOs, is the CEO. During 2009, the general objective for all NEOs was the reduction of costs in their respective areas of responsibility.

For 2009, the Compensation Committee established the executives' annual target bonus opportunity, which is measured as a percentage of base salary as follows:

Participant	2009 Annual Target Bonus
Richard J. Alario	125%
William M. Austin*	75%
T. M. Whichard III	75%
Newton W. Wilson	75%
Kim B. Clarke	75%
Kimberly R. Frye	75%
J. Marshall Dodson	50%

* Mr. Austin left Key in February 2009.

In connection with the adjustments to account for the volatility in the market, the 2009 cash bonus incentive would have allowed the Compensation Committee to shift the percentage weightings of the target measurements in determining the overall payout for an executive. The percentage weighting with respect to each target measurement for the first and second halves of 2009 are set forth below. The 2009 performance measure weightings reflect the discretion given to the Compensation Committee for individual performance during an unpredictable marketplace. As previously discussed, although we were successful in meeting our safety and turnover targets, as well as implementing certain cost cutting measures, because we did not meet the financial target established by the Compensation

Committee, no

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cash incentive bonus awards were paid during 2009. The percentage weightings for the first and second halves of 2009 were as follows:

Participant	Performance Measure Weightings for First Half and Second Half 2009				2009 Actual % of Target Payment		\$
	EBITDA	Safety	Turnover	Individual			
Richard J. Alario	50%	10%	10%	30%		0%	
William M. Austin	50%	10%	10%	30%		0%	
T. M. Whichard III	50%	10%	10%	30%		0%	
Newton W. Wilson III	50%	10%	10%	30%		0%	
Kim B. Clarke	50%	10%	10%	30%		0%	
Kimberly R. Frye	50%	10%	10%	30%		0%	
J. Marshall Dodson	50%	10%	10%	30%		0%	

During 2009, the aggregate target participation percentage for all eligible employees in the cash incentive bonus plan ranged from 10% to 125% of base salary. However, if we had performed above the financial business plan and therefore exceeded the established financial performance target, an additional bonus amount for each officer would have been available beyond his or her target based on applying an increased target bonus percentage to the financial performance weighting. This increased percentage that was available to each officer participant for 2009 was as follows:

Participants	Increased Financial Target Percentage
CEO	300%
Senior and Executive Vice Presidents	190%
All Other Vice Presidents	125%

By way of example, if we had exceeded our financial performance target in 2009, and safety, turnover and individual goals were also met, our CEO (Mr. Alario) would have been entitled to a maximum cash bonus amount of up to 212.5% of his base salary, calculated as follows: (300% increased financial target percentage *multiplied by* 50% EBITDA weighting) *plus* (125% target bonus percentage *multiplied by* 10% safety weighting) *plus* (125% target bonus percentage *multiplied by* 10% turnover weighting) *plus* (125% target bonus percentage *multiplied by* 30% individual weighting) = 212.5% of base salary. Achievement over and above the financial target can occur only when the business plan is exceeded. Inasmuch as the business plan is our estimate of expected achievement for the measurement period, exceeding the target for this measure is difficult.

Table of Contents**2010 Cash Bonus Incentive Plan Performance Measurements**

For 2010, the Compensation Committee approved the following performance measurements:

<u>PBT</u>	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.
<u>Safety</u>	This goal represents the improvement required, or desired result, in the OSHA recordable incident rate, as discussed in <i>2009 Performance Measures</i> above.
<u>Additional Individual Objectives</u>	Individual performance goals are based on individual objectives for each NEO specific to his or her area of expertise and oversight, as discussed in <i>2009 Performance Measures</i> above.

The Compensation Committee also approved weightings with respect to each of the performance measurements under the plan for 2010 as follows:

2010 Performance Measure Weighting

Participant	PBT	Safety	Individual
Richard J. Alario	65%	10%	25%
T. M. Whichard III	65%	10%	25%
Newton W. Wilson III	65%	10%	25%
Kim B. Clarke	65%	10%	25%
Kimberly R. Frye	65%	10%	25%
J. Marshall Dodson	65%	10%	25%

The cash bonus incentive plan for 2010 shifts the financial performance goal from EBITDA to PBT. Both management and the Compensation Committee believe that PBT is a better pay-for-performance measurement as it includes all costs necessary to conduct the business, including the capital employed through assets as depreciation expense and cost of financing. Measuring against PBT will allow stockholders to compare the executives' performance on both an absolute and peer-relative basis. Employee turnover was removed as a component of the 2010 cash bonus incentive program. Emerging from a period that resulted in an approximate 33% reduction in our workforce, coupled with benefit and salary reductions, we were faced with a situation in which our employee turnover trending analysis had become less meaningful. While we will continue to track our employee turnover, it is currently less relevant as a performance target.

The financial performance measurement and safety measurement were determined using our operating budget for 2010. The financial performance is contingent on several factors beyond our control, including commodity prices and customers' capital budgets, and it includes a degree of stretch beyond projections with respect to 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. The safety target

remains a component of the cash bonus incentive plan. Safety targets are determined based on overall trending year-over-year relative to the level of activity. In years during which the trend is significantly affected by a volatile employment market, such as rapid reductions-in-force or significant changes in workforce to meet increased activity levels, establishing a practical target becomes somewhat more difficult. In this regard, the safety goals set for 2010 may be less achievable than in years during which the workforce has remained relatively more steady and consistent. Notwithstanding this difficulty, 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 weighting of the targets under the 2010 cash bonus incentive plan reflects the continued emphasis to align our overall financial performance with the incentive compensation of each of the

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executives. Under the 2010 plan, the executives' bonus opportunity, which is measured as a percentage of base salary, is as follows:

Participant	Threshold	Target	Maximum
Richard J. Alario	50%	125%	300%
T. M. Whichard III	35%	75%	190%
Newton W. Wilson III	35%	75%	190%
Kim B. Clarke	35%	75%	190%
Kimberly R. Frye	35%	75%	190%
J. Marshall Dodson	25%	50%	125%

Unlike the previous plan, the 2010 cash bonus incentive plan for employees at vice-president level and above calculates cash bonus opportunities as an absolute percentage of base salary, and the percentage achieved is multiplied by the respective weighting of the performance targets. As under the previous plan, an executive may receive incremental bonus percentage if the financial performance threshold is achieved, but less than 100% if the financial performance target is achieved. For example, Mr. Alario would be entitled a percentage of his salary between 50% to 125% depending on the level of PBT above threshold, but below budget. The same concept applies if we outperform target PBT. In that scenario, Mr. Alario would be entitled to a percentage of his salary between 125% to 300%, depending on the level above PBT target, but below maximum level PBT. If we achieve PBT in excess of the maximum target, no additional bonus is paid.

Previously, once the financial target was met, the executive could receive full credit for achieving the other performance targets. Under the 2010 plan, each performance measure is factored depending on the level of financial performance. For example, even if an executive reaches 100% of his or her safety or individual goals, the eligible bonus is factored by the percentage level of financial performance reached. By way of example, if we achieve threshold (but not target) PBT performance, and each of the other performance targets is met, Mr. Alario would receive a cash bonus equal to 50% of his base salary, calculated as follows: (50% threshold percentage *multiplied by* 65% PBT weighting) *plus* (50% threshold percentage *multiplied by* 10% safety weighting) *plus* (50% threshold percentage *multiplied by* 25% individual weighting) = 50% of base salary. Alternatively, if we achieve threshold PBT and individual goals are met, but the safety goal is not achieved, Mr. Alario would then be entitled to 45% of his base salary, calculated as follows: (50% threshold percentage *multiplied by* 65% PBT weighting) *plus* (50% threshold percentage *multiplied by* 25% individual weighting) = 45% of base salary. The shift to factoring the payment to the financial performance achievement level is to further align financial performance and executive incentive compensation.

Discretionary Cash Bonuses

In addition to cash bonuses under the 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 executive officer for fiscal 2009. The Compensation Committee did approve a holiday gift of approximately \$200 to each of Key's employees, other than its officers.

During 2008, the Compensation Committee authorized a discretionary cash bonus, in addition to the cash bonus paid under the cash bonus incentive plan, as summarized in the Summary Compensation Table. The Compensation Committee made the additional payments in further recognition of performance by each of the executive officers during 2008. The amounts of the bonuses reflected the Compensation Committee's assessment of the subjective factors

related to each of the NEO's performance and exercise of additional tasks during the initial and continuing economic downturn, including Messrs. Alario's and Austin's proactive direction to initiate an aggressive cost reduction program and the other NEOs' efforts in implementing this program in their respective areas of responsibility, ranging from their management of fleet and equipment costs, reductions in force and other efforts to identify cost savings as Key was concurrently transitioning to a new organizational structure in early 2009.

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Long-Term Equity-Based Incentive Compensation

The purpose of our long-term incentive compensation is to align the interests of our executives with that of our stockholders. We want our executives to be focused on increasing stockholder value. In order to encourage and establish this focus on stockholder value, during 2009, we used the Key Energy Services, Inc. 2007 Equity and Cash Incentive Plan and the Key Energy Services, Inc. 2009 Equity and Cash Incentive Plan (or the 2007 Plan and the 2009 Plan) as long-term vehicles to accomplish this goal. The 2007 Plan was approved by our stockholders in December 2007, shortly after the expiration in November 2007 of the Key Energy Group, Inc. 1997 Incentive Plan, or the 1997 Plan. Accordingly, since 2008, no awards have been made under the 1997 Plan. However, awards that were previously made under the 1997 Plan remain outstanding.

The 2009 Plan was approved by our stockholders in June 2009. Accompanied by the severe economic downturn, by the end of 2008, the declining market price of our common stock had become lower than the exercise prices on many of our outstanding stock options and stock appreciation rights, or SARs. In response to this situation, on December 17, 2008, we accelerated the vesting periods on all outstanding stock options and SARs with exercise prices between \$12.45 and \$19.42 per share. Although we accelerated the vesting periods on these awards, almost all of our outstanding stock options and SARs remained out-of-the-money (with exercise prices higher than the market price) as of March 2009 and therefore were less effective retention and long-term incentive tools.

In March 2009, in light of these conditions, the Compensation Committee approved a grant under the 2007 Plan of 2,190,320 shares of restricted stock to both our executive officers and approximately 200 of our other employees. These grants vest in three equal annual installments, with the first installment having vested on March 2, 2010. We believe this was an important step to take during the economic downturn to help counteract the effect of the diminished value of out-of-the-money awards held by officers and employees in a position to make significant long-term contributions to Key.

Following the March 2009 restricted stock grant, as of April 6, 2009, there remained only 14,824 shares available for granting under the 2007 Plan. Since that time, additional shares have been made available for grant under the 2007 Plan as a result of award forfeitures that occurred in connection with continued headcount reductions throughout 2009. As of March 8, 2010, there remained 282,637 shares available for grant under the 2007 Plan, which the Compensation Committee and Equity Award Committee continue to use for smaller grants in connection with individual promotions, new hires and similar situations. In light of the number of out-of-the-money awards that were outstanding last year, many of which remain out-of-the-money currently, and the limited number of shares that were remaining under the 2007 Plan, we believed that it was crucial to adopt the 2009 Plan at last year's annual meeting to allow us to continue utilizing long-term equity-based incentive awards to promote and maintain alignment of compensation with long-term stockholder value. Upon adoption, the 2009 Plan had 4,000,000 total shares available for grants.

During 2010, based on the recommendation of Longnecker, we made long-term equity-based incentive awards to all of our executive officers of restricted shares and performance units. The aggregate amount of the awards was intended to align the executives' equity-based compensation between the 50th and 75th percentiles of the peer group with respect to this component of total compensation. The allocation between restricted shares and performance units was based on Longnecker's recommendation in consideration of the overall economic benefit to the executives and impact to Key. Specifically, for this year's annual long-term equity incentive grant, on January 28, 2010, the Compensation Committee approved a grant under the 2009 Plan consisting of 1,415,079 shares of restricted stock to both our executive officers and approximately 230 of our other employees, and approved a grant on March 1, 2010 of 244,249 performance units under the 2009 Plan to our officers, including executive officers. After giving effect to these grants, as well as earlier grants under the 2009 Plan (including the annual grant on June 8, 2009 of 143,100 shares to our non-employee directors), there are 2,423,409 shares remaining under the 2009 Plan as of March 8, 2010.

As mentioned above, during 2009, to promote our long-term objectives, equity awards were made under both the 2009 Plan and the 2007 Plan to directors, executive officers and other employees who were in a position to make a significant contribution to our long-term success. The terms of the 2009 Plan and the 2007

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Plan are substantially the same, and both provide 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 SARs. Since 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 its adoption, only stock options and restricted stock have been granted under the 2007 Plan, and only restricted stock and performance units have been granted under the 2009 Plan.

The following types of awards are available for grant under the 2009 Plan and the 2007 Plan:

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. In 2010, our Compensation Committee approved the creation of performance units under the 2009 Plan. 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 (as administrator under the 2009 Plan), the following percentage of performance units subject to that performance period vest based on the relative placement of Key's total shareholder return within a peer group of companies:

Key's Placement Within Peer Group	Vested Percentage
Top one-third	100%
Middle one-third	50%
Bottom one-third	0%

The peer group consists of Nabors Industries, Inc., Weatherford International Ltd., Basic Energy Services, Inc., Complete Production Services, Inc. and RPC, Inc., or any other corporation selected by our Compensation Committee. (While there is some overlap, this peer group is not the same as the peer group used for comparative market data analyses in connection with setting compensation levels, which is discussed above under the heading *Compensation Consultant*.) Total shareholder 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 thirty trading days immediately preceding the grant date and (ii) the average closing price of common stock for the last thirty 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).

If any performance units vest for a completed performance period, the participant will be paid, within sixty days following the end of the performance period, a cash amount equal to the vested percentage of the performance units

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

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We believe that the grant of performance units will provide a long-term incentive for executives to achieve a high level of performance that is tied to our performance relative to industry peers under common external market conditions, while further strengthening the connection between executive and stockholder interests. We also believe they provide forfeitable long-term incentives that encourage executive retention.

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).

We believe that awards of stock options 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. 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. As mentioned above, because of declines in our stock price since the third quarter of 2008, we accelerated the vesting periods on certain of our outstanding unvested stock option awards during the fourth quarter of 2008, including stock options granted prior to that time under the 1997 Plan and the 2007 Plan.

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.

We believe that SARs provide a significant incentive for executives to achieve and maintain high levels of performance over multi-year periods, and that they strengthen the connection between executive and stockholder interests. We believe that SARs are a creative tool for helping us retain executive talent. Although no SARs have been granted under the 2009 Plan or the 2007 Plan, SARs granted under the 1997 Plan remain outstanding. Currently outstanding SARs were granted with three year ratable vesting schedules and 10-year lives. As mentioned above, however, during the fourth quarter of 2008, we accelerated the vesting periods on our outstanding unvested SARs granted under the 1997 Plan.

In addition to awards described above, one of our NEOs, Ms. Frye, also holds phantom shares granted in 2006 under the Key Energy Services, Inc. 2006 Phantom Share Plan, or the Phantom Plan. Although phantom shares were not granted in 2009, some phantom shares granted under the Phantom Plan remain outstanding. The plan was adopted by our Compensation Committee in December 2006, and allowed us to issue equity-based incentives to employees and executives who, because of our late filing status at that time, would have been otherwise unable to participate in such plans. Under the terms of the award agreements under this plan, within 20 business days after the vesting date of outstanding phantom shares, we will deliver to the employee a payment in cash equal to the value of the vested phantom shares as determined by the then-fair market value of our common stock. No performance-vesting criteria are applied to our Phantom Plan awards; however, the value of a Phantom Plan award is tied directly to the price of our common stock at the time of vesting.

Retirement, Health and Welfare Benefits

We offer a variety of retirement, 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.

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In addition to the compensation described above, under the terms of his employment agreement, the CEO may also be paid reasonable fees 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 except Mr. Dodson, we pay all covered out-of-pocket medical and dental expenses not otherwise covered by insurance. Starting in 2010, all of the NEOs, except for Mr. Dodson, 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 2009 are reflected under *Perquisites* below.

We maintain a 401(k) plan for our employees. 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. During 2009, in January and February, we also matched 100% of each employee's deferrals up to 4% of the individual's eligible salary, subject to a cap of \$230,000. Therefore, even if an employee earned more than \$230,000 in eligible salary, our matching contribution could not exceed \$9,200. However, as previously disclosed, as part of the cost reduction efforts that we implemented in response to U.S. and global declining market conditions, effective March 1, 2009, we amended our 401(k) plan to suspend our matching contributions to all employees, including our executives, with the intent that such suspension would remain in effect for the remainder of 2009. Although we retained the ability to make discretionary contributions related to the 2009 plan year if market conditions sufficiently improved, at the end of 2009, based on the continued depressed economic conditions, we did not reinstate matching contributions for either the 2009 plan year or the 2010 plan year.

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. We made employer matching contributions to the 401(k) plan of approximately \$1.7 million for the year ended December 31, 2009.

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 in the event 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 *Potential 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 *Potential 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.

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

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Compensation 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*.

Compensation of Executive Officers**Summary Compensation Table**

The following table contains information about the compensation that our NEOs earned for fiscal years 2009, 2008 and 2007:

Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)(2)	Non-equity	All Other	
						Incentive Plan Compensation (\$)	Compensation (\$)(3)	
Alario(4)	2009	\$ 764,800		\$ 1,599,776			\$ 55,790	\$ 2
Executive	2008	\$ 822,154	\$ 100,000	\$ 1,834,773	\$ 1,401,513	\$ 533,728	\$ 44,985	\$ 4
	2007	\$ 796,306		\$ 1,313,760	\$ 1,419,781	\$ 375,100	\$ 47,521	\$ 3
Richard III(5) Financial Officer	2009	\$ 262,861		\$ 676,100			\$ 207	\$
L. Wilson III(6) Operating	2009	\$ 422,740		\$ 648,947			\$ 10,460	\$ 1
	2008	\$ 428,077	\$ 175,000	\$ 572,660	\$ 438,352	\$ 283,050	\$ 29,670	\$ 1
	2007	\$ 393,159	\$ 100,000	\$ 437,920	\$ 473,258	\$ 202,050	\$ 22,708	\$ 1
Marke(7) Production and Sales Officer	2009	\$ 258,929		\$ 331,233			\$ 8,672	\$
	2008	\$ 271,586	\$ 30,000	\$ 376,750	\$ 286,673	\$ 176,813	\$ 13,125	\$ 1
	2007	\$ 258,587		\$ 287,388	\$ 310,576	\$ 146,869	\$ 15,519	\$ 1
R. Frye(8) Counsel and	2009	\$ 259,399		\$ 330,482			\$ 4,981	\$
L. Dodson(9) President and former interim financial officer)	2009	\$ 215,914		\$ 306,116			\$ 508	\$

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E. Austin(10)	2009	\$ 87,400					\$ 9,608	\$
Chief Financial	2008	\$ 449,102	\$ 50,000	\$ 753,500	\$ 573,346	\$ 277,346	\$ 22,453	\$ 2
	2007	\$ 432,304		\$ 598,032	\$ 646,296	\$ 200,856	\$ 20,258	\$ 1

- (1) With the exception of ignoring the impact of the forfeiture rate relating to service-based vesting conditions, represents the fair value dollar amounts with respect to restricted stock awards (in the *Stock Awards* column) and awards of stock options and SARs (in the *Option Awards* column) granted under the 2007 Plan and the 1997 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 these columns are discussed in Note 18 in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.
- (2) Although these dollar amounts represent the fair value of these awards as of their respective grant dates (as described in footnote 1 above), all of these awards were out-of-the-money as of December 31, 2009 and continue to be out-of-the-money as of the date of this proxy statement, meaning the exercise prices of the awards are above the market price of our common stock.

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- (3) A breakdown of the amounts shown in this column for 2009 for each of the NEOs is set forth in under *Perquisites* below.
- (4) The amounts of non-equity incentive plan compensation paid to Mr. Alario represent (i) annual cash bonus incentive compensation of \$260,000 and \$273,728 for the first and second halves of 2008, respectively and (ii) annual cash bonus incentive compensation of \$182,500 and \$192,600 for the first and second halves of 2007, respectively. The bonus paid to Mr. Alario in 2008 represents a discretionary bonus made for individual performance beyond those of the established targets. As discussed above under the heading *Cash Bonus Incentive Plan* under *Compensation Discussion and Analysis*, no cash bonus incentive compensation was paid to any officers in 2009.
- (5) Mr. Whichard joined Key and was appointed Chief Financial Officer on March 26, 2009, and therefore began receiving the compensation set forth above effective from and after that date.
- (6) The amounts of non-equity incentive plan compensation paid to Mr. Wilson represent (i) annual cash bonus incentive compensation of \$140,625 and \$142,425 for the first and second halves of 2008, respectively; and (ii) annual cash bonus incentive compensation of \$105,750 and \$96,300 for the first and second halves of 2007, respectively. The bonuses paid to Mr. Wilson in each of 2008 and 2007 represent an annual \$100,000 retention bonus paid each of those years pursuant to the terms of Mr. Wilson's employment agreement. Also, in 2008, Mr. Wilson received a \$75,000 discretionary bonus made for individual performance beyond those of the established targets (for total bonus of \$175,000 in 2008). As discussed above under the heading *Cash Bonus Incentive Plan* under *Compensation Discussion and Analysis*, no cash bonus incentive compensation was paid to any officers in 2009.
- (7) The amounts of non-equity incentive plan compensation paid to Ms. Clarke represent (i) annual cash bonus incentive compensation of \$86,133 and \$90,680 for the first and second halves of 2008, respectively; and (ii) annual cash bonus incentive compensation of \$83,672 and \$63,197 for the first and second halves of 2007, respectively. The bonus paid to Ms. Clarke in 2008 represents a discretionary bonus made for individual performance beyond those of the established targets. As discussed above under the heading *Cash Bonus Incentive Plan* under *Compensation Discussion and Analysis*, no cash bonus incentive compensation was paid to any officers in 2009.
- (8) Ms. Frye was not a NEO during 2008 and 2007, and therefore information is presented only for 2009. In addition to the amounts included in the table, Ms. Frye also received a cash payment of \$22,550 in connection with the December 22, 2009 vesting of 2,500 phantom shares. The phantom shares are not included in the table above because they were not granted during 2009. See also footnote 5 to the *2009 Outstanding Equity Awards at Fiscal Year-End* table and footnote 4 to the *2009 Option Exercises and Stock Vested* table, both below.
- (9) Mr. Dodson was not a NEO during 2008 and 2007, and therefore information is presented only for 2009.
- (10) The bonus paid to Mr. Austin in 2008 represents a discretionary bonus made for individual performance beyond those of the established targets. The amounts of non-equity incentive plan compensation paid to Mr. Austin represent (i) annual incentive compensation of \$142,025 and \$135,321 for the first and second halves of 2008, respectively; and (ii) annual incentive compensation of \$106,792 and \$94,064 for the first and second halves of 2007, respectively.

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The following table contains information about the perquisites that our NEOs received for fiscal year 2009:

Name	Savings Plan Contributions(1)	Insurance	Auto Allowance(2)	Medical Expenses(3)	Other	Total
Richard J. Alario	\$ 2,560	\$ 14,453(4)	\$ 12,692	\$ 10,311	\$ 15,774(5)	\$ 55,790
T. M. Whichard III					\$ 207(6)	\$ 207
Newton W. Wilson III	\$ 2,769	\$ 2,655(7)		\$ 4,262	\$ 774(6)	\$ 10,460
Kim B. Clarke	\$ 1,696			\$ 6,561	\$ 415(6)	\$ 8,672
Kimberly R. Frye	\$ 1,692			\$ 3,109	\$ 180(6)	\$ 4,981
J. Marshall Dodson	\$ 346				\$ 162(6)	\$ 508
William M. Austin	\$ 3,496			\$ 5,975	\$ 137(6)	\$ 9,608

- (1) Represents contributions by Key on behalf of the NEO to the Key Energy Services, Inc. 401(k) Savings and Retirement Plan. As mentioned above, effective March 1, 2009, our 401(k) plan was amended to suspend matching contributions to all employees, including our NEOs.
- (2) Represents an automobile allowance paid to Mr. Alario pursuant to terms of his employment agreement during 2009. Mr. Alario is entitled to 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 \$3,823 for the related tax gross-up payment pursuant to his employment agreement.
- (5) Represents (i) \$15,000 reimbursed to Mr. Alario for personal services provided by certified public accountants or tax attorneys pursuant to his employment agreement; 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 \$955 for the related tax gross-up payment pursuant to his employment agreement.

Table of Contents**2009 Grants of Plan Based Awards**

The following table presents information on plan-based awards in fiscal 2009 to the NEOs:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Stock Awards: Number of Securities Underlying	All Other Option Awards: or Exercise Price of Awards	Grant Date Fair Value of Stock and Option Awards(2)
		Threshold (\$)	Target (\$)	Maximum (\$)			
Richard J. Alario	3/02/09	\$ 416,000	\$ 1,040,000	\$ 1,768,000	583,860(3)		\$ 1,599,776
T. M. Whichard III	3/26/09	\$ 131,250	\$ 281,250	\$ 496,875	90,000(4)		\$ 296,100
	5/11/09				10,000(4)		\$ 60,000
	6/04/09				50,000(3)		\$ 320,000
Newton W. Wilson III	3/02/09	\$ 157,500	\$ 337,500	\$ 596,250	236,842(3)		\$ 648,947
Kim B. Clarke	3/02/09	\$ 96,469	\$ 206,719	\$ 365,203	120,888(3)		\$ 331,233
Kimberly R. Frye	3/02/09	\$ 96,250	\$ 206,250	\$ 364,375	120,614(3)		\$ 330,482
J. Marshall Dodson	3/02/09	\$ 29,250	\$ 112,500	\$ 196,875	29,605(3)		\$ 81,118
	6/04/09				35,156(3)		\$ 224,998

William
M. Austin

- (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. As shown in the *Summary Compensation Table* above, no payments were made under the cash bonus incentive plan during 2009. For a detailed description of the cash bonus incentive plan, see the *Cash Bonus Incentive Plan* section under *Compensation Discussion and Analysis* above.
- (2) With the exception of ignoring the impact of the forfeiture rate relating to service-based vesting conditions, represents the grant date fair value calculated in accordance with FASB ASC Topic 718.
- (3) Represents the number of restricted shares granted in 2009 to the NEOs under the 2007 Plan. The restricted shares vest ratably over the three-year period following the date of grant.
- (4) Represents the number of restricted shares granted in 2009 to the NEO under the 2007 Plan. The restricted shares vest ratably over the four-year period following the date of grant.

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, for each of the NEOs other than Mr. Dodson, at least 90 days prior to the commencement of an extension term, and, for Mr. Dodson, at least 30 days prior to the commencement of an extension term. Each of the NEOs receives an annual salary, which can be increased (but not decreased) at the discretion of the Compensation Committee and, in the case of Mr. Wilson, Mr. Whichard, Ms. Clarke, Ms. Frye and Mr. Dodson (and as was the case for Mr. Austin prior to his resignation), 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 (and as was the case for Mr. Austin prior to his resignation), up to 50% of his base salary in the case of Mr. Dodson, 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. Each of the NEOs other than Mr. Dodson also receives comprehensive medical and dental plans available to our senior management pursuant to which all medical and dental expenses incurred by them and their respective spouses and children will be reimbursed through insurance or, in the absence of insurance, directly by Key so that the executives have no out-of-pocket cost with respect to such expenses. Starting in 2010, all of the NEOs, except

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for Mr. Dodson, receive these reimbursements under the terms of, and subject to the limitations set forth in, our Executive Health Reimbursement Plan.

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.

As previously disclosed and noted above, Mr. Austin resigned from Key effective February 6, 2009. On February 5, 2009, Mr. Austin and Key executed a letter agreement to address certain matters in connection with his resignation. The letter agreement (i) confirmed that Mr. Austin voluntarily resigned for other than Good Reason (as defined in his employment agreement); (ii) based on the position Mr. Austin assumed following his resignation, waived a portion of his employment agreement's non-compete to allow him to serve in an interim managerial capacity with, or be engaged to provide restructuring advice for, any business that would otherwise be subject to the non-compete; and (iii) provided that Mr. Austin receive the incentive bonus for the second half of the fiscal year ended December 31, 2008, in such amount as determined by Key (which amount is reported in footnote 10 of the *Summary Compensation Table* above). Under the letter agreement, Mr. Austin also provided a full release of Key and its officers, employees and affiliates of all claims relating to his employment, compensation and termination. The benefits under this letter agreement were in addition to anything to which Mr. Austin is entitled under the employment agreement and applicable Key plans.

Each of the NEOs' employment agreements contains a comprehensive non-compete provision. With respect to each of the NEOs other than Mr. Dodson, the non-compete provision prohibits the executives from engaging in any activities that are competitive with Key during their employment, and for any period in which each of them 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. With respect to Mr. Dodson, the non-compete provision prohibits him from engaging in any activities that are competitive with Key during his employment and for a period of twelve months following termination regardless of whether he receives any severance compensation from Key. As mentioned above, Key waived a portion of Mr. Austin's non-compete to allow him to serve in an interim managerial capacity with, or be engaged to provide restructuring advice for, any business that would otherwise be subject to the non-compete.

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 Mr. Alario is subject to the tax imposed by Section 4999 of the Code, he will be reimbursed for such tax on an after-tax basis. If any of Mr. Wilson, Mr. Whichard, Mr. Austin, Ms. Clarke or Ms. Frye is subject to the tax imposed by Section 4999 of the Code, he or she will be reimbursed for such tax on an after-tax basis; provided, however, that the executive has agreed to a reduction of up to 10% of the value the executive would have received if such reduction would avoid the imposition of such tax.

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

Table of Contents**2009 Outstanding Equity Awards at Fiscal Year-End**

The following table provides information with respect to outstanding stock options, restricted stock, and phantom shares held by the NEOs as of December 31, 2009:

Name	OPTION AWARDS					STOCK AWARDS	
	Equity Incentive Plan					Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)
	Number of Securities	Number of Securities	Number of Securities	Option Exercise Price (\$)	Option Expiration Date		
	Underlying Unexercised Options (#) Exercisable	Underlying Unexercised Options (#) Unexercisable	Underlying Unexercised Options (#) Unearned	Option Exercise Price (\$)	Option Expiration Date	Vested (#)	Vested (\$)(2)
Richard J. Alario	200,000			\$ 11.90	06/24/15	705,753(3)	\$ 6,203,569
	224,719(4)			\$ 14.32	08/22/17		
	231,000			\$ 15.07	04/10/18		
T. M. Whichard III						150,000(3)	\$ 1,318,500
Newton W. Wilson III	125,000			\$ 11.90	06/24/15	275,536(3)	\$ 2,421,961
	74,906(4)			\$ 14.32	08/22/17		
	72,250			\$ 15.07	04/10/18		
Kim B. Clarke	10,000			\$ 11.75	12/15/14	146,328(3)	\$ 1,286,223
	15,000			\$ 14.25	12/08/15		
	49,157(4)			\$ 14.32	08/22/17		
	47,250			\$ 15.07	04/10/18		
Kimberly R. Frye	7,500			\$ 9.58	10/18/12	133,980(3)	\$ 1,177,684
	4,500			\$ 8.43	10/18/12	2,500(5)	\$ 21,975
	10,000			\$ 11.81	05/07/13		
	5,000			\$ 10.22	05/07/13		
	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	07/30/18		
	8,825			\$ 16.50	08/20/18		

J. Marshall					
Dodson	10,000	\$ 14.03	08/22/15	73,095(3)	\$ 642,505
	25,000	\$ 15.05	03/15/16		
	14,888(4)	\$ 14.32	08/22/17		
	7,000	\$ 15.07	04/10/18		

William M.
Austin(6)

- (1) Effective December 17, 2008, we accelerated vesting on all outstanding stock options and SARs with exercise prices between \$12.45 and \$19.42 per share. Other than one grant to Ms. Frye, all of the stock options held by the NEOs were out-of-the-money as of December 31, 2009, meaning the exercise prices of the awards were above the market price of our common stock.
- (2) The market price of stock awards and phantom shares 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, 2009 was \$8.79.
- (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, other than Mr. Austin, the vesting is as follows (see footnote 6 below regarding forfeiture on February 6, 2009 of Mr. Austin's unvested restricted stock):

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Name	Number of Shares	Vesting Date	
Richard J. Alario	30,581	August 22, 2010	
	30,437	April 10, 2010	
	30,438	April 10, 2011	
	30,437	April 10, 2012	
	194,620	March 2, 2010	
	194,620	March 2, 2011	
	194,620	March 2, 2012	
	T. M. Whichard III	22,500	March 26, 2010
		22,500	March 26, 2011
22,500		March 26, 2012	
22,500		March 26, 2013	
2,500		May 11, 2010	
2,500		May 11, 2011	
2,500		May 11, 2012	
2,500		May 11, 2013	
16,667		June 4, 2010	
16,667	June 4, 2011		
16,666	June 4, 2012		
Newton W. Wilson		August 22, 2010	
	10,194	2010	
	9,500	April 10, 2010	
	9,500	April 10, 2011	
	9,500	April 10, 2012	
	78,948	March 2, 2010	
	78,947	March 2, 2011	
	78,947	March 2, 2012	
	Kim B. Clarke		August 22, 2010
6,690		2010	
6,250		April 10, 2010	
6,250		April 10, 2011	
6,250		April 10, 2012	
40,296		March 2, 2010	
40,296		March 2, 2011	
40,296		March 2, 2012	
Kimberly R. Frye			August 21, 2010
	4,455	2010	
		August 21, 2011	
	4,456	2011	
		August 21, 2012	
	4,455	2012	
	40,205	March 2, 2010	
	40,205	March 2, 2011	
	40,204	March 2, 2012	
J. Marshall Dodson		August 22, 2010	
	8,334	2010	
	11,719	June 4, 2010	

11,719	June 4, 2011
11,718	June 4, 2012
9,869	March 2, 2010
9,868	March 2, 2011
9,868	March 2, 2012

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- (4) Represents SARs.
- (5) Represents phantom shares granted on December 22, 2006. The phantom shares vest in four equal annual installments on each anniversary of the grant date. Vested phantom shares are payable solely in cash within twenty business days after the vesting date. The original grant to Ms. Frye was for 10,000 phantom shares, of which 7,500 shares have vested on the first three anniversaries of the grant date. The remaining 2,500 unvested phantom shares shown in the table above will vest on December 22, 2010. See also footnote 8 to the *Summary Compensation Table* above and footnote 4 to the *2009 Option Exercises and Stock Vested* below.
- (6) In connection with Mr. Austin's resignation from Key on February 6, 2009, (i) all 94,508 shares of unvested restricted stock he previously held were forfeited on February 6, 2009; (ii) 90,000 stock options with an exercise price of \$10.53 and 102,292 SARs with an exercise price of \$14.32 which he previously held expired unexercised on May 7, 2009; and (iii) 94,500 stock options with an exercise price of \$15.07 which he previously held expired unexercised on May 6, 2009.

2009 Option Exercises and Stock Vested

The following table sets forth certain information regarding options and stock awards exercised and vested, respectively, during 2009 for the NEOs:

Name	Option Awards(1)		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)(2)	Value Realized on Vesting (\$)(3)
Richard J. Alario			111,019	\$ 781,151
T. M. Whichard III				
Newton W. Wilson III			36,360	\$ 257,958
Kim B. Clarke			24,607	\$ 176,002
Kimberly R. Frye(4)			4,456	\$ 53,252
J. Marshall Dodson			13,333	\$ 100,048
William M. Austin				

- (1) None of the NEOs exercised stock options or SARs during 2009.
- (2) Represents the number of shares of restricted stock held by the NEOs that vested during 2009.
- (3) These amounts represent the value realized upon vesting of restricted stock and, with respect to Ms. Frye, also the value realized upon the vesting of phantom shares (see footnote 4 below for a description of the vesting of Ms. Frye's phantom shares). 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.

- (4) In addition to restricted stock, 2,500 phantom shares held by Ms. Frye vested on December 22, 2009. The number of phantom shares are not included in the column entitled *Number of Shares Acquired on Vesting* because no shares were acquired on their vesting. Pursuant to the 2006 Phantom Share Plan under which they were granted, the phantom shares were settled in cash within twenty business days after the vesting date based on the closing price of our common stock on the vesting date. The 2,500 phantom shares that vested on December 22, 2009 resulted in a cash payment to Ms. Frye of \$22,550 based on the \$9.02 closing price of our common stock on that date. The dollar amount in the column entitled *Value Realized on Vesting* includes both the \$22,550 cash settlement received upon the vesting of the phantom shares plus \$30,702 related to the vesting of 4,456 shares of restricted stock, which is calculated in the

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manner described in footnote 3 immediately above. See also footnote 8 to the *Summary Compensation Table* and footnote 5 to the *2009 Outstanding Equity Awards at Fiscal Year-End* table, both above.

Payments Upon Termination or Change of Control

The table below reflects the potential payments to which the NEOs would be entitled upon termination of employment on December 31, 2009. The closing price of a share of our common stock on December 31, 2009, the last trading day of the year, was \$8.79. 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.

Mr. Austin is not included in the table below because, as mentioned above, he resigned from Key on February 6, 2009 and was therefore not employed with Key at the end of the year for purposes of these calculations. With respect to Mr. Austin's termination of employment, because he voluntarily resigned from Key, he was not entitled to any severance. However, as described above under the heading *Employment Agreements* under *Compensation Discussion and Analysis* above, pursuant to a letter agreement executed in connection with his resignation, we provided Mr. Austin with a partial waiver of the non-compete under his employment agreement and agreed that he would remain entitled to receive an incentive bonus for the second half of 2008 in an amount as determined by Key (which amount is reported in footnote 10 of the *Summary Compensation Table* above). Mr. Austin also provided, pursuant to the letter agreement, a full release of Key and its officers, employees and affiliates of all claims relating to his employment, compensation and termination.

Name	For Cause or				Change of Control(6)
	Non-Renewal(1)	Voluntary Resignation(2)	Death(3)	Disability(4)	
Richard J. Alario					
Cash Severance(7)	\$ 1,719,384			\$ 2,579,076	\$ 5,075,076
Restricted Stock(8)	\$ 6,203,569		\$ 6,203,569	\$ 6,203,569	\$ 6,203,569
Options and SARs(9)					
Phantom Shares(10)					
Health & Welfare(11)	\$ 103,214		\$ 51,758	\$ 103,214	\$ 103,214
Tax Gross-Ups(12)					
Total Pre-Tax Benefit	\$ 8,026,167		\$ 6,255,327	\$ 8,885,859	\$ 11,381,859

Name	For Cause or				Change of Control(6)
	Non-Renewal(1)	Voluntary Resignation(2)	Death(3)	Disability(4)	
T. M. Whichard III					
Cash Severance	\$ 750,000			\$ 375,000	\$ 1,968,750
Restricted Stock(8)	\$ 1,318,500		\$ 1,318,500	\$ 1,318,500	\$ 1,318,500
Options and SARs(9)					
Phantom Shares(10)					

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Health & Welfare(11)	\$ 31,404	\$ 26,005	\$ 31,404	\$ 31,404	\$ 31,404
Tax Gross-Ups(12)					\$ 894,133
Total Pre-Tax Benefit	\$ 2,099,904	\$ 1,344,505	\$ 1,724,904	\$ 2,099,904	\$ 4,212,787

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Name	For Cause or				Without Cause(5)	Change of Control(6)
	Non-Renewal(1)	Voluntary Resignation(2)	Death(3)	Disability(4)		
Newton W. Wilson III						
Cash Severance	\$ 900,000			\$ 450,000	\$ 900,000	\$ 2,700,000
Restricted Stock(8)	\$ 2,421,961		\$ 2,421,961	\$ 2,421,961	\$ 2,421,961	\$ 2,421,961
Options and SARs(9)						
Phantom Shares(10)						
Health & Welfare(11)	\$ 33,116		\$ 22,407	\$ 33,116	\$ 33,116	\$ 33,116
Tax Gross-Ups(12)						
Total Pre-Tax Benefit	\$ 3,355,077		\$ 2,444,368	\$ 2,905,077	\$ 3,355,077	\$ 5,155,077

Name	For Cause or				Without Cause(5)	Change of Control(6)
	Non-Renewal(1)	Voluntary Resignation(2)	Death(3)	Disability(4)		
Kim B. Clarke						
Cash Severance	\$ 551,250			\$ 275,625	\$ 551,250	\$ 1,653,750
Restricted Stock(8)	\$ 1,286,223		\$ 1,286,223	\$ 1,286,223	\$ 1,286,223	\$ 1,286,223
Options and SARs(9)						
Phantom Shares(10)						
Health & Welfare(11)	\$ 31,446		\$ 27,007	\$ 31,446	\$ 31,446	\$ 31,446
Tax Gross-Ups(12)						\$ 619,841
Total Pre-Tax Benefit	\$ 1,868,919		\$ 1,313,230	\$ 1,593,294	\$ 1,868,919	\$ 3,591,260

Name	For Cause or				Without Cause(5)	Change of Control(6)
	Non-Renewal(1)	Voluntary Resignation(2)	Death(3)	Disability(4)		
Kimberly R. Frye						
Cash Severance	\$ 550,000			\$ 275,000	\$ 550,000	\$ 1,650,000
Restricted Stock(8)	\$ 1,177,684		\$ 1,177,684	\$ 1,177,684	\$ 1,177,684	\$ 1,177,684
Options and SARs(9)						
Phantom Shares(10)	\$ 21,975		\$ 21,975	\$ 21,975	\$ 21,975	\$ 21,975
Health & Welfare(11)	\$ 24,420		\$ 20,102	\$ 24,420	\$ 24,420	\$ 24,420
Tax Gross-Ups(12)						\$ 706,780
Total Pre-Tax Benefit	\$ 1,774,079		\$ 1,219,761	\$ 1,499,079	\$ 1,774,079	\$ 3,580,859

Name	For Cause or				Without Cause(5)	Change of Control(6)
	Non-Renewal(1)	Voluntary Resignation(2)	Death(3)	Disability(4)		
J. Marshall Dodson						
Cash Severance	\$ 225,000		\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000
Restricted Stock(8)	\$ 73,256		\$ 73,256	\$ 73,256	\$ 73,256	\$ 642,505
Options and SARs(9)						
Phantom Shares(10)						
Health & Welfare(11)						\$ 4,165
Tax Gross-Ups(12)						
Total Pre-Tax Benefit	\$ 298,256		\$ 298,256	\$ 298,256	\$ 298,256	\$ 871,670

(1) Represents compensation payable if Key does not renew the NEO's employment agreement after the initial term or any extension of the agreement.

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- (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 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 agreement.
- (6) Represents payments due 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 following a "change of control," and, for each NEO other than Mr. Dodson, also assumes that the target annual bonus is paid. 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) Cash severance payable to Mr. Alario includes a cash payment described below, plus an automobile allowance of \$12,692 per year and advisory fees of \$15,000 per year (based on the amounts paid by Key for such perquisites during 2009), 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 vested shares by \$8.79, the closing price on December 31, 2009. For all of the NEOs other than Mr. Dodson, all of their unvested shares of restricted stock would have vested in each scenario other than termination for cause or voluntary resignation. For Mr. Dodson, all 73,095 of his shares of unvested restricted stock would have vested upon a change of control, but only 8,334 shares of unvested restricted stock granted under the 1997 Plan would have vested under the terms of that plan in connection with the other listed scenarios (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, 2009.
- (10) No value is associated with phantom shares other than for Ms. Frye because no other NEO held phantom shares on December 31, 2009.
- (11) For all of the NEOs other than Mr. Dodson, 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 2009, assuming such benefits continue after termination for thirty-six months for Mr. Alario and twenty-four months for Mr. Wilson, Mr. Whichard, Ms. Clarke and Ms. Frye. Although Mr. Whichard did not receive payments attributable to reimbursement of out-of-pocket medical expenses during 2009, for purposes of this table, an amount was estimated for Mr. Whichard equal to the average of the 2009 payments received by the other NEOs to whom reimbursements were made. For Mr. Dodson, the amount assumes continuation of medical insurance for a period of twelve months following termination in connection with a change of control.
- (12) All the NEOs, other than Mr. Dodson, 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. Mr. Whichard, Ms. Clarke and Ms. Frye were subject to excise taxes upon a change of control because their respective total parachute payments would have to be reduced to less than 90%. Therefore, the entire change of control benefit for each of Mr. Whichard, Ms. Clarke and Ms. Frye was considered, and the total payments reflected in the table for these officers were not reduced. Change of control benefits for Messrs. Alario, Wilson and Dodson were not subject to any excise tax.

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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 thirty-six month period following termination. In the event 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, 2009, he would have been entitled to an amount equal to two times his base salary.

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 twenty-four 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 twelve 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 other than Mr. Dodson, 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.

For Mr. Dodson, if, during the term of his employment agreement, his employment is terminated as a result of his death or disability, within one year of following a change of control of Key, or by Key for any reason other than for Cause (as defined in his employment agreement), including non-renewal of his employment agreement, Mr. Dodson will be entitled to severance compensation in an aggregate amount equal to one times his base salary in effect at the time of termination payable in one lump sum thirty days following his termination.

Although Mr. Austin's employment agreement contains generally the same terms as noted above for Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye, as discussed above, he resigned from Key in February 2009 for other than Good Reason (as defined in his employment agreement).

Equity-Based Incentives

Equity-based incentives include restricted stock, stock options, phantom shares 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

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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. For Mr. Dodson, if his employment is terminated by Key for any reason other than for Cause, his unvested restricted stock granted under the 1997 Plan shall immediately vest, but all other unvested equity awards, including restricted stock granted under other plans, will be forfeited.

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) twenty-four months with respect to Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye (and as was the case for Mr. Austin), or thirty-six 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. For Mr. Alario, Mr. Whichard, Mr. Wilson, Ms. Clarke and Ms. Frye (and as was the case for Mr. Austin), in the event of death, the executive's spouse is entitled to up to three years of coverage after the date of termination, with respect to Mr. Alario, and with respect to the other NEOs, the executive's spouse is entitled to up to two years of coverage after the date of termination. If Mr. Dodson's employment is terminated within one year after a change of control of Key other than for Cause or for Good Reason (each as defined in his employment agreement), including as a result of disability or non-renewal, he will be entitled to receive the medical and dental benefits that he was receiving, at a cost equal to what he was paying for such benefits prior to termination, through the earlier of one year after termination or upon obtaining new employment and coverage under similar welfare benefit plans. 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 Sections 280G and 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.

Director Compensation

As part of our cost reduction efforts in response to the economic downturn, non-employee director cash fees were temporarily decreased by 10%, effective from and after April 1, 2009. This reduction continues in effect currently.

For 2009, the non-employee directors received a fee equal to \$65,000 per year (reduced by 10%, to \$58,500, after April 1, 2009), or a pro rated amount for partial years of service, and an annual award of our common stock having a fair market value of \$85,000, 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 2009. The chairs of the Compensation Committee and the CGN Committee each received an

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additional \$10,000 per year for their service (reduced by 10%, to \$9,000, after April 1, 2009), and the chair of the Audit Committee and the Lead Director each received an additional \$20,000 per year (reduced by 10%, to \$18,000, after April 1, 2009). All other members of the Audit Committee (other than the chair) receive an additional \$10,000 per year (reduced by 10%, to \$9,000, after April 1, 2009).

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, 2009:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	Total (\$)
David J. Breazzano(2)	\$ 74,125	\$ 85,001	\$ 159,126
Lynn R. Coleman	\$ 60,125	\$ 85,001	\$ 145,126
Kevin P. Collins	\$ 69,375	\$ 85,001	\$ 154,376
William D. Fertig	\$ 69,375	\$ 85,001	\$ 154,376
W. Phillip Marcum	\$ 60,125	\$ 85,001	\$ 145,126
Ralph S. Michael III(2)	\$ 80,875	\$ 85,001	\$ 165,876
William F. Owens	\$ 69,375	\$ 85,001	\$ 154,376
Robert K. Reeves	\$ 69,375	\$ 85,001	\$ 154,376
J. Robinson West	\$ 60,125	\$ 85,001	\$ 145,126
Arlene M. Yocum(2)	\$ 71,625	\$ 85,001	\$ 156,626

- (1) Represents the grant date fair value calculated in accordance with FASB ASC Topic 718 with respect to the 2009 annual stock awards granted to the non-employee directors under the 2009 Plan, which consisted of 14,310 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 \$85,000, because fractional shares are not granted, the amount recognized is slightly different.
- (2) Effective October 1, 2009, (i) Mr. Breazzano stepped down as Lead Director; (ii) Mr. Michael stepped down as chair of the Audit Committee and was appointed Lead Director, replacing Mr. Breazzano; and (iii) Ms. Yocum was appointed chair of the Audit Committee, replacing Mr. Michael. The cash fees in the table above reflect prorated fees with respect to these changes that took effect at the beginning of the fourth quarter of 2009.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Messrs. Reeves (chair), Breazzano, Fertig, Marcum and West, all of whom are independent non-management 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 on March 16, 2010 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
David J. Breazzano
William D. Fertig
W. Phillip Marcum
J. Robinson West

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**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 2010 annual meeting, our Audit Committee will reconsider its selection of Grant Thornton LLP. 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.

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, 2009. 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. Anyone who has concerns about Key may communicate those concerns in writing addressed to a particular non-management director or to the non-management 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 shall, subject to advice and assistance from the General Counsel, be primarily responsible for monitoring communications from stockholders and other interested parties and shall 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), or the Lead Director, or otherwise the chair of the CGN Committee, also serves as the presiding director at all executive sessions of our non-management 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.

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Stockholder Proposals for the 2011 Annual Meeting

Proposals which stockholders intend to be included in our proxy material for presentation at the 2011 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 1, 2010, 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 2011 Annual Meeting.

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 2011 Annual Meeting must be received by the Corporate Secretary at our principal executive office in Houston, Texas no earlier than January 20, 2011 and no later than February 19, 2011, unless the date of the 2011 Annual Meeting is advanced by more than 20 days or delayed by more than 60 days from the anniversary date of the 2010 Annual Meeting, in which event the bylaws provide different notice requirements.

By Order of the Board of Directors,

KIMBERLY R. FRYE
Corporate Secretary

March 31, 2010

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

To be held on May 20, 2010 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 20, 2010, 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 can revoke your proxy at any time before it is voted at the annual meeting by (i) submitting another properly completed proxy bearing a later date; (ii) giving written notice of revocation to the Secretary of the Company; (iii) if you submitted a proxy through the Internet or by telephone, by submitting a proxy again 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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**ANNUAL MEETING OF STOCKHOLDERS OF
KEY ENERGY SERVICES, INC.
May 20, 2010**

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:

The Notice of Meeting, proxy statement and proxy card
are available at <http://phx.corporate-ir.net/phoenix.zhtml?c=78965&p=irol-proxy>.

You can also reach this web address by going to <http://www.keyenergy.com>,
then clicking on Investor Relations and then clicking on 2010 Annual Meeting of Stockholders.

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

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

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

Signature of Stockholder	Date:	Signature of Stockholder	Date:
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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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**ANNUAL MEETING OF STOCKHOLDERS OF
KEY ENERGY SERVICES, INC.
May 20, 2010**

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, and use the Company Number and Account Number shown on your proxy card.

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 and use the Company Number and Account Number shown on your proxy card.

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.

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

COMPANY NUMBER

ACCOUNT NUMBER



NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL: The Notice of Meeting, proxy statement and proxy card are available at <http://phx.corporate-ir.net/phoenix.zhtml?c=78965&p=irol-proxy>. You can also reach this web address by going to <http://www.keyenergy.com>, then clicking on Investor Relations and then clicking on 2010 Annual Meeting of Stockholders.

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

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

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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