

KEY ENERGY SERVICES INC
Form DEF 14A
April 03, 2013
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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)

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

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(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.

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

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

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

Thank you for your cooperation and support.

Sincerely,

Dick Alario

Chairman of the Board,

President and Chief Executive Officer

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KEY ENERGY SERVICES, INC.

1301 McKinney Street

Suite 1800

Houston, Texas 77010

NOTICE OF 2013 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 23, 2013

To Our Stockholders:

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

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

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

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

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

By Order of the Board of Directors,

Kimberly R. Frye

Corporate Secretary

Houston, Texas

April 3, 2013

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

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

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KEY ENERGY SERVICES, INC.

1301 McKinney Street

Suite 1800

Houston, Texas 77010

Proxy Statement for the 2013 Annual Meeting of Stockholders

To Be Held on May 23, 2013

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

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

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

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

IMPORTANT INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

General Information

Q. Who can vote at the annual meeting?

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

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

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

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

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

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

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

Q. How do I vote?

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

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

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

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

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

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

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

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

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

Q. Can I change my vote?

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

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

Q. Will my shares be voted

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

if I don't return my proxy?

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

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

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

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

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

Q. What vote is required to

approve each matter and how are votes counted?

A. Proposal 1 Election of Four Class I Directors

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

You may:

vote FOR a nominee;

vote AGAINST a nominee; or

ABSTAIN from voting on one or more nominees.

Proposal 2 Ratification of Selection of Independent Registered Public Accounting Firm

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

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

Proposal 3 Advisory Vote on Compensation of the Named Executive Officers

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

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

Delivery of Documents to Security Holders Sharing an Address

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

Stock Ownership of Certain Beneficial Owners and Management

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

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

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

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

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

* Less than 1%

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

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

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

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

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

Stock Ownership Guidelines

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

Title

Stock Ownership Guideline

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Chief Executive Officer Six times annual base salary

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

Non-executive Board Member Three times annual retainer

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

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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 ten. There are four Class I directors, three Class II directors and three Class III directors. At this year's annual meeting, the terms of our Class I directors will expire. The Class I directors elected at this year's annual meeting will serve three-year terms expiring at the annual meeting in 2016, until their successors are elected and qualified, or the earlier of their death, resignation or removal. The Class II and Class III directors will serve until the annual meetings of stockholders to be held in 2014 and 2015, respectively, until their respective successors are elected and qualified, or the earlier of their death, resignation or removal.

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

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

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

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

Below are the names, ages and certain other information of each nominee for election as a Class I director and each other member of our Board, including information each director has given us about all positions he or she holds, his or her principal occupation and business experience for the past five years and the names of other publicly held companies of which he or she currently serves as a director or has served as a director during the past five