UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 78558 / August 11, 2016

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3794 / August 11, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17379

In the Matter of **KEY ENERGY SERVICES, INC.,** **Respondent.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), against Key Energy Services, Inc. ("Key Energy" or "Respondent").

II.

In anticipation of the institution of these proceedings, Key Energy has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Key Energy consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Key Energy's Offer, the Commission finds[1] that:

Summary

1. These proceedings arise from violations of the books and records and internal control provisions of the Foreign Corrupt Practices Act of 1977 (the "FCPA") [15 U.S.C. § 78m(b)(2)] by Respondent Key Energy. From August 2010 through at least April 2013, Key Energy's Mexican subsidiary ("Key Mexico") made improper payments to a contract employee at Petróleos Mexicanos ("Pemex"), the Mexican state-owned oil company, to induce him to provide Pemex inside information as well as advice and assistance on contracts with Pemex and amplifications or amendments to those contracts. These funds were transferred to the Pemex employee via an entity that provided purported consulting services to Key Mexico (the "Consulting Firm") despite the absence of appropriate authorization of the relationship with the Consulting Firm and lack of supporting documentation regarding the purported consulting work performed.

2. Key Mexico improperly recorded the transfers to the Consulting Firm as legitimate business expenses in Key Mexico's books and records. Key Mexico's books and records were consolidated into Key Energy's books and records. During the relevant period, Key Energy failed to implement and maintain sufficient internal controls including within Key Mexico relating to interactions with Pemex officials and failed to respond to indicia of risk relating to Key Mexico's improper use of consultants.

Respondent and Related Entities

3. **Key Energy** is a Maryland corporation with its headquarters in Houston, TX. The company's common stock is registered under Section 12(b) of the Exchange Act and listed on the New York Stock Exchange (ticker: KEG). Key Energy and its various subsidiaries provide rig-based well-services. On September 4, 2015, Key Energy announced that for 30 consecutive trading days the price for Key's common shares was below the minimum $1.00 per share requirement for continued listing on the NYSE. Key Energy's common shares have continued to trade below $1.00 since that time. Between December 2014 and October 2015, Moody's downgraded Key Energy's bonds three times and changed its outlook to "negative."

4. **Key Mexico** consists of two legal entities: an operating company, Key Energy Services de Mexico S. de R.L. de C.V., and a service payroll company, Recursos Omega S. de R.L. de C.V., which is the legal employer of Key Energy's employees in Mexico. Both are Mexican entities and indirectly wholly-owned subsidiaries of Key Energy. Key Mexico was formed to service wells owned by Pemex. It currently has one remaining contract with Pemex, which expires in October 2016. Throughout the relevant time period, Key Mexico's financial results were included in the consolidated financial statements that Key Energy filed with the Commission. Key Mexico provides rig-based services such as maintenance, workover, and

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

recompletion of existing wells, completion of newly-drilled wells, and plugging and abandonment of wells at the end of their useful lives.

Facts

Key Energy's Business in Mexico

5. In 2004, Key Energy began taking steps to enter the Mexican market. In 2007, Pemex awarded Key Mexico its first contract in Mexico, and subsequently awarded the company additional contracts and contract extensions. Both Key Energy and Key Mexico officers and employees were involved in Key Mexico's obtaining of Pemex business. From 2010 through 2013, Mexico accounted for 3.5%-10% of Key Energy's annual consolidated revenue. In April 2015, Key Energy announced that it was winding down its international business outside of North America, and intends to exit Mexico once its current contractual obligations to Pemex are complete.

Contact between Key Mexico and the Consulting Firm

6. In 2008, Pemex announced a call for bids on a public tender for Contract Number 424048861 ("Contract No. 8861"), through which Pemex sought field production solutions and well workover services in its North Region. Key Mexico competed against three other bidders as part of a public tender and was awarded Contract No. 8861. Contract No. 8861 was signed on September 26, 2008. The initial contract was for a 24-month term and provided for Key Mexico to be paid $65 million. The contract term and amount were subsequently increased through a series of amendments or "amplifications."

7. In or around August 2010, Key Mexico hired the Consulting Firm to "provide expert advice on contracts with . . . Pemex," including Contract No. 8861. The hiring of the Consulting Firm was arranged and approved by the Key Mexico country manager. Although the country manager knew that the Consulting Firm had ties to the Pemex employee and that payments to the Consulting Firm were used to funnel Key Mexico funds to the Pemex employee in exchange for his assistance with obtaining Pemex business, the country manager never disclosed the nature of this relationship to Key Energy.

8. The Pemex employee was employed in the department that negotiated and approved Key Mexico's contracts with Pemex. Over a period of three years, the Key Mexico country manager approved payments to the Consulting Firm with ties to the Pemex employee in exchange for the employee providing assistance to Key Mexico in bidding for and obtaining amendments to contracts with Pemex, including providing Key Mexico with non-public information about upcoming Pemex tenders and lobbying internally at Pemex for lucrative amendments to Key Mexico contracts with Pemex. Some of the communications were sent from the Pemex employee's official Pemex email account and some from a personal email account. From 2010 through at least 2013, Key Mexico paid the Consulting Firm tied to the Pemex employee at least $229,000 for purported consulting services.

9. While Key Energy personnel eventually became aware at least as early as 2011 that Key Mexico was doing business with the Consulting Firm, Key Energy allowed Key Mexico to continue using the vendor even though Key Mexico did not enter into a written agreement or contract with the Consulting Firm until 2013. Moreover, Key Energy and Key Mexico failed to conduct due diligence on the Consulting Firm, despite Key Energy policies requiring that such due diligence be performed. As a result, Key Energy did not uncover the Consulting Firm's relationship to the Pemex employee until 2014, when Key Energy began an investigation into other allegations concerning the country manager.

The Amendment to Contract No. 8861

10. In 2011, Key Mexico continued performing under Contract No. 8861. On February 15, 2011, the Pemex employee, from his official Pemex email account, forwarded the Key Mexico country manager an internal chain of emails among Pemex officials writing "I am sending you this for your information and so we are ready." The attachments to the email string included Pemex internal memoranda concerning certain new contracts that Pemex intended to put out for tender.

11. At that time, Pemex's plan to put out the tenders on the new contracts had not yet been publicly announced. However, it is clear that Key Energy and Key Mexico had already learned of the forthcoming tenders. Upon receiving the email from the Pemex employee, Key Mexico's country manager forwarded it to Houston, to Key Energy employees including a senior vice president, writing "The tenders are coming now." It was clear from the e-mail that it contained detail of internal Pemex deliberations, but the recipients at Key Energy apparently did not question how or why the country manager was in possession of and sharing such communications. Rather, after discussing the potential new contracts that had been flagged by the Pemex employee, the senior vice president wrote, "Why don't we convince them to add 90 million to the current package?" The "current package" was the existing contract, Contract No. 8861. The country manager suggested scheduling a conference call with the senior vice president to discuss the matter further.

12. One week later, on February 23, the Pemex employee, again from his Pemex e-mail account, forwarded the Key Mexico country manager an unexecuted internal Pemex memo, under which Pemex personnel recommended an increase of $60 million to the funds available to pay Key Mexico under Contract No. 8861. The Pemex employee wrote in the cover e-mail to the country manager: "I am sending this to you so you can see I am working."

13. On March 24, 2011, a little more than a month later, Key Mexico and Pemex executed an amendment to Contract No. 8861 increasing the contract amount by approximately an additional $60 million.

14. The Pemex employee, through the Consulting Firm, continued to provide Key Mexico with assistance and information in connection with Contract No. 8861 and with bids for and execution of other contracts with Pemex through at least 2013.

The Payments to the Pemex Employee and the Consulting Firm

15. Starting in August 2010, Key Mexico paid the Consulting Firm a monthly consulting fee of approximately $4,500. This amount was increased to approximately $8,000 a month in July 2011, after Key Mexico obtained an additional contract with Pemex. Between August 16, 2010 and May 7, 2014, Key Mexico made 58 payments to the Consulting Firm totaling approximately $561,000. Of that amount, at least $229,000 were payments made through April 2013 in connection with consulting services that were described in Key Mexico's accounting system as "Expert advice on contracts with the new regulations of Pemex/Preparation of technical and economic proposals/Contract Execution." In addition, the Pemex official received four wire transfers directly to his personal bank accounts from the personal bank account of Key Mexico's country manager totaling approximately $6,400.

16. There is no record that the Pemex employee or the Consulting Firm provided any legitimate consulting services for Key Mexico. Instead, the Consulting Firm was used as a conduit through which the Pemex employee received payment from Key Mexico.

17. The country manager resigned from Key Mexico in February 2014.

Key Energy's FCPA Related Policies and Internal Accounting Controls - Lax Internal Controls

18. During the relevant period, Key Energy had various written compliance policies, including a Code of Conduct, an FCPA Compliance Manual (which included an FCPA Policy and an FCPA Procedure), and a Procurement Policy. But despite having a compliance program on paper, Key Energy failed to implement accounting controls in its Mexico subsidiary sufficient to prevent improper payments to a vendor with ties to a Pemex employee. At some point during the course of the payments to the Consulting Firm Key Energy's then legal department became aware of the relationship with the Consulting Firm (but not the Consulting Firm's connection to the Pemex employee). Although the consulting arrangement with the Consulting Firm violated Key Energy compliance policies because it had been entered without pre-approval from Key Energy legal, because no due diligence had been conducted on the Consulting Firm and because no written contract had been entered with the firm, Key Energy allowed the relationship and payments to continue, and Key Mexico allowed payment of the invoices from the Consulting Firm despite a lack of sufficient documentation supporting the purported services and the ties between the Consulting Firm and the Pemex employee.

19. In addition to failing to respond to various indicia of risk concerning the relationship with the Consulting Firm tied to the Pemex employee, Key Energy also failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions were executed in accordance with management's general or specific authorization and recorded as necessary to maintain accountability of assets by failing to respond effectively to signs indicating that gifts provided by Key Mexico to Pemex officials were being given as rewards for providing Key Mexico with increased business that year. Specifically, in 2012, Key Energy approved Key Mexico's contribution of gifts totaling approximately $118,000 to Pemex's annual Christmas season celebration with the understanding that the gifts were to be intended for a raffle. However, employees of Key

Mexico did not disclose to Key Energy that Key Mexico planned to give at least $55,000 of these gifts to approximately 130 specific Pemex officials working in the regions in which Key Mexico operated. In approving the gifts Key Energy ignored that the amount spent on approved gifts was more than nine times what had been spent on purported raffle gifts in 2010 and approximately 26 times what had been spent in 2011. Key Energy also failed to consider the implications of the explanation by Key Mexico's country manager that the higher gift amount in 2012 was correlated to Key Mexico having done more business with Pemex that year. Had Key Energy sought more information, it may have learned that Key Mexico was providing gifts to Pemex officials during a period Key Mexico was engaged in ongoing negotiations with Pemex, including negotiations to obtain additional funding for work required under its contracts with Pemex.

20. Key Energy also failed to adequately monitor and supervise the senior executives at Key Mexico to ensure they complied with and enforced anti-corruption policies and kept accurate records concerning payments to consultants and gifts to Mexican government officials. Key Mexico had no independent compliance staff or internal audit function that had authority to intervene into management decisions and, if appropriate, take remedial actions. Key Energy also failed to enforce its pre-approval processes for consultants in Mexico, instead allowing Key Mexico to engage consultants without the required due diligence, pre-approval, or written contract—even once members of Key Energy's then legal department became aware that Key Mexico was using the Consulting Firm. As a result, in many instances, the senior employees of Key Mexico had unsupervised control over the compliance process; these employees in turn abused their privileges, approving suspect arrangements with and payments to consultants and gifts to Mexican government officials at Pemex, and concealing these arrangments and payments from Key Energy.

Internal Investigation and Remedial Efforts

21. In or around January 2014, the staff of the Commission contacted Key Energy with respect to potential FCPA violations by Key Energy. In April 2014, Key Mexico employees reported to Key Energy information they had received suggesting the recently resigned country manager had promised bribes to one or more Pemex employees during his employment with Key Mexico. Upon learning of these allegations, Key Energy reported the allegations to the staff of the Commission. Thereafter, Key Energy undertook a broad internal investigation and risk assessment of Key Energy's international operations. To the extent the internal investigation identified additional issues of concern, Key Energy provided updates to the Commission staff.

22. In conjunction with its internal review and investigation, Key Energy promptly and simultaneously undertook significant remedial measures including hiring a new Chief Compliance Officer ("CCO") who oversaw a renovation and enhancement of Key Energy's compliance program. These steps included: (1) the suspension of payments to all vendors and third parties in Mexico shortly after the independent investigation/internal review began; (2) the engagement of a manual review of over 600 vendors in Mexico for purposes of clearing legitimate payments and assessing whether to move forward with those vendors in current and future operations; (3) reviewing all vendors in use in Russia and Colombia and instituting an enhanced due diligence procedure for all vendors globally; (4) establishing enhanced financial

controls around the procedure-to-pay process in Mexico, Colombia, and Russia including interim employee certifications requirements, revised vendor onboarding requirements, and heightened payment approval requirements; (5) implementing a new business opportunities protocol to help Key Energy legal better understand business risks including the role played by agents, consultants or other vendors/business partners, so as to enable better assessment of corruption-related risks in future business opportunities; (6) installing new controllers in the Colombia and Mexico businesses and more effectively enforcing a solid line reporting relationship to the U.S. Controller and ultimately the CFO; (7) in-person visits to each international location by the CCO and others to, among other things, conduct training of all international employees; and (8) developing and/or reviewing several company policies and procedures including the Code of Business Conduct, the FCPA and Anti-Corruption policy, the Travel and Expense policy, and the New Hire Screening Form; and (9) a coordinated wind-down and exit of all markets outside of North America, and a commitment to exit Mexico by the end of 2016.

23. Throughout the process, Key Energy provided cooperation with the staff. In addition to reporting to the staff after discovering the FCPA allegations relating to Mexico, Key Energy provided the staff with investigation updates and shared its translations of certain important documents. These actions assisted the staff in its investigation.

Legal Standards and FCPA Violations

24. Under Section 21C(a) of the Exchange Act, the Commission may impose a cease-and-desist order upon any person who is violating, has violated, or is about to violate any provision of the Exchange Act or any regulation thereunder, and upon any other person that is, was, or would be a cause of the violation, due to an act or omission the person knew or should have known would contribute to such violation.

25. Section 13(b)(2)(A) of the Exchange Act requires every issuer with a class of securities registered pursuant to Section 12 of the Exchange Act to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer. [15 U.S.C. § 78m(b)(2)(A)]

26. Section 13(b)(2)(B) of the Exchange Act requires such issuers to, among other things, devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. [15 U.S.C § 78m(b)(2)(B)]

27. As a result of the conduct described above, Key Energy violated Section 13(b)(2)(A) because its books and records did not, in reasonable detail, accurately and fairly reflect the purpose of the payments. These improper payments were falsely recorded as legitimate business expenses in the books and records of the subsidiary which were consolidated into Key Energy's books and records. Accordingly, Key Energy violated Section 13(b)(2)(A) of the Exchange Act. As described above, Key Energy also violated Section 13(b)(2)(B) of the Exchange Act by failing to devise and maintain sufficient accounting controls to prevent and detect these improper payments.

Commission Consideration of Key Energy's Cooperation, Remedial Efforts and Current Financial Condition

28. In determining to accept the Offer, the Commission considered cooperation Key Energy afforded to the Commission staff and the remedial acts undertaken by Key Energy. In addition, in determining the disgorgement amount and not to impose a penalty, the Commission has considered Key Energy's current financial condition and its ability to maintain necessary cash reserves to fund its operations and meet its liabilities.

Undertakings

In the event Respondent is or becomes a debtor under Title 11 of the United States Bankruptcy Code ("Bankruptcy Code"), whether voluntarily or involuntarily, Respondent agrees to undertake all reasonable efforts to obtain authorization from the bankruptcy court having jurisdiction over Respondent's bankruptcy to pay the disgorgement amount ordered in Paragraph IV. B.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent shall cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A)-(B)].

B. Respondent shall, within 14 days of entry of this Order, pay disgorgement of $5,000,000.00 (the "Disgorgement Amount") to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made within 14 days of when due additional interest shall accrue pursuant to SEC Rule of Practice 600. If Respondent has become a debtor under the Bankruptcy Code before the Disgorgement Amount is paid to the Commission, then, unless otherwise ordered by the bankruptcy court having jurisdiction over Respondent's bankruptcy case, Respondent shall pay the Disgorgement Amount to the Commission within 14 days of the bankruptcy court's approval of such payment. If timely payment is not made within 14 days of when due additional interest shall accrue pursuant to SEC Rule of Practice 600, unless 11 U.S.C. § 502(b)(2) applies. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC Web site at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch HQ
Bldg., Room 181, AMZ-341

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Key Energy Services, Inc. as the Respondent in these proceedings, and the file number of these proceedings. A copy of the cover letter and check or money order must be sent to Kara Brockmeyer, Unit Chief, FCPA Unit, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

C. Respondent acknowledges that the Commission is not imposing a civil penalty based upon its cooperation in a Commission investigation and related enforcement action. If at any time following the entry of the Order, the Division of Enforcement ("Division") obtains information indicating that Respondent knowingly provided materially false or misleading information or materials to the Commission, or in a related proceeding, the Division may, at its sole discretion and with prior notice to the Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay a civil money penalty. Respondent may contest by way of defense in any resulting administrative proceeding brought by the Commission, whether it knowingly provided materially false or misleading information, but may not: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Brent J. Fields
Secretary