
MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Key Energy Conference Call. [Operator Instructions]. I would now like to turn the conference over to your host, Mr. Richard Alario. Please go ahead sir.

Richard Alario, Chairman, President, and Chief Executive Officer

Thank you. Good morning everyone and thank you for joining us today on our restatement and activity update. Joining me in Midland this morning are Bill Austin, our Chief Financial Officer; Trey Wilson, our General Counsel; Kimberly Frye, our Assistant General Counsel; and John Daniel, our Vice President of Investor Relations.

Before we get into the items that we wanted to present this morning, I will ask Trey Wilson, our General Counsel, to take us through the customary Safe Harbor language.

Newton W. Wilson III, Senior Vice President and General Counsel

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Richard Alario, Chairman, President and Chief Executive Officer

Thank you, Trey. Before Bill Austin gives us the restatement update, I want to characterize where we are from my perspective.

The Company has entered the reconciliation phase of our work. This is that phase which is just prior to our turning over our results to KPMG, who will then complete the audit of our restated

Key Energy Services, Inc.

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Restatement and Activity

Update

Event Type▲

Mar. 7, 2005

Date▲

financials. I would also like to point out that while management is cautiously optimistic about completing the process by March 31, there are elements of this work which are not within our control. So relative to questions that might follow this presentation, we will not be able to offer further clarification of many of the items that are discussed today.

So with that I'll ask Bill to take us through the updated restatement information.

William M. Austin, Senior Vice President and Chief Financial Officer

Thank you Dick.

As most of you know, we've been at this restatement process for approximately a year now, but we are near the end of that process. The first thing I would caution is that we want to make sure we get it right. While there is a lot of pressure to move forward and to do this by March 31, it's incumbent upon this management team, and we're dedicated to make sure that the restatement will be done correctly and that this will – this kind of a process will be a complete and full process. We continue to believe that March 31 filing is achievable, however as Dick said we can provide no guarantee that it will be done by that date. We clearly have the internal resources dedicated to this and our auditor KPMG has provided the same. We do know that the filing won't occur at least until the last week of March. We do not intend to file the old 10-Ks or Qs. The 2003 10-K will be inclusive of all the prior years. Today, we will update you on the restatement process and we will discuss other matters reviewed during the restatement process, and discuss what items might cause a delay in the filing process.

As you know, the restatement has primarily been focused on fixed assets. We currently believe that the write down of the fixed assets is at the lower end of our previously announced 165 to \$195 million range. As you know, we inventoried tens of thousands of items. We then matched those tens of thousands of items to the accounting ledger, and that process, as Dick said, is essentially complete. We have now performed thousands – literally thousands of journal entries for our historical financial statements and we'll discuss that a little later. Currently, we are reconciling these detailed entries to our financial statements. KPMG will then audit all these transactions and all these entries. Again, as for the journal entry process, our staff just finished entering those thousands of journal entries.

To give you an idea of how broad and how extensive, we did nearly 45,000 different entries. So – although, some of those have been done manually and some of them through a system. We have changed the amounts, we've changed in-service times of a lot of our assets, and it's been a vast and comprehensive occurrence.

We are now going back over a five-year period, because we need three years of audited financials and five years of selected financials in our data tables. Now that the entries are made we are reconciling the financials and we will then turn the data over to KPMG for their final review.

We believe KPMG, and we've had lots of discussions with KPMG, we believe they will need approximately two weeks to complete that review. And while KPMG is doing so, we will be completing and computing our income tax calculations. Assuming KPMG has no issues with our work, we would expect to file our 2003 10-K shortly after their review is complete. In the meantime and concurrently, we are presently drafting the 10-K and that is well underway.

As I said before, the primary focus of the restatement process has been on fixed assets. However, once we determined that we were in the restatement that opened the door for a fresh review of all accounting matters during the period of restatement. Some of those items have been discussed in prior releases and filings, including the stock options and state and local franchise taxes, and I would refer to you the filings for those – on those issues. However, other items that are being

reviewed include, and again this is in the press release and I will elaborate a little bit more during this discussion. Our environmental reserves, we expect a substantial decrease in the reserve that was originally booked during the QSI acquisition. That amount was some \$14 million, and as I said, we believe that we have substantial decrease in that reserve. At the same time, we will increase our plugging and abandonment liabilities, but not by a like amount. That will go up, and again it's a little too early to tell that number, but that liability will increase.

Again, we've also evaluated the derivatives for our oil and gas operations, which was divested in 2003. It now appears that we will have to account for that on a quarterly basis, on a mark-to-market situation. That will not have any effect in our 2003 ending retained earnings, since we have divested those operations, but we do have to change the accounting treatment inter-period for those matters. We also have under-accrued our auto liability reserves for 2003, and I would add 2004; that will be corrected as well. Workers compensation, we have to change some accruals on that.

And finally, but not lastly, we are looking at the depreciable lives of our fixed assets. To the extent that that is currently under review, we certainly have a position on that with KPMG, but to the extent that some of our depreciable lives may have to change in the ensuing week or two here, we will inform you of that situation.

As a result, obviously there is additional adjustment to our historical financial statements - will be needed. I will give you two examples to give you an idea. For example, the review of our stock options, we determined that the granting of non-statutory stock options in 2002 and prior years were erroneously accounted for as qualified stock options. The financial impact was a cost of approximately \$5 million to \$7 million, but most of that, it will be allocated to periods prior to 1999, and clearly that is a non-cash charge.

Another example as I referred to before are the environmental reserves that were created during the acquisition of Q Services. We booked some \$14 million of reserves at that time, but we have determined that the accrued environmental liabilities were incorrectly calculated and we are now determining the amount of decrease which will be - and that decrease will be substantial from that \$14 million. In almost all cases, the adjustments are non-cash.

Additionally, in most cases we are simply reallocating costs to their proper period, with the major exceptions being those environmental reserves, and they will be reallocated to purchase accounting and to our goodwill account. While we have identified all these issues, we have taken positions on the adjustments and those positions now are being reviewed by KPMG. We expect to resolve most of those very shortly. The final amount of these items obviously will be determined in the next short period of time, and we will provide those specific details in our 2003 10-K.

Now assuming, we file our '03 10-K on or about March 31, we estimate that there will be some 60 to 90 days to file our 2004 10-K, and those relevant three 10-Qs. Our target to complete that process then is by June 30 of 2005. We will then complete the work on the 10-Qs for 2005, and target a filing of both the first quarter and the second quarter 10-Q by August 15 of 2005.

Now under this schedule, we obviously need to seek additional waivers and consents from our bondholders and our bankers. We have been in communication with both parties, and we believe that those additional waivers and consents can be resolved within the coming month. We have had good positive conversations, and again we have been able to negotiate with the bondholders and the banks in the past. And as we near the end of this process, we see no reason why we can't do that again during this month.

Just to give some perspective of the possible delays that may happen that would prevent us from reaching the March 31 deadline, clearly, new issues could arise that neither Key nor KPMG are aware of now. As Dick said, we are now reconciling the thousands of journal entries needed to

restate our financials. If those are delayed, that also could delay the filing. For that matter, KPMG may need more time to review our work. We believe that they have been reviewing with their national group in parallel as we've gone through this process and we think they are in pretty good shape, but they could need more time to review it.

As I referred to before, the changes in our depreciable lives, if we have significant changes there, or changes that frankly I don't expect at this time, that could result in a delay. And because any one or more of these issues could surface, we still cannot guarantee the March 31 filing, but I would reconfirm that the end is clearly in sight, and is clearly near.

While we have been going through this process, and again it's been a year in coming, we have obviously identified some deficiencies in our internal controls. These include our asset management system, our fixed asset accounting system, we have had poor documentation at many of our yard level transactions. And we have certain obviously weaknesses in our disclosure matters, including the financial reporting disclosures.

Now we are addressing those issues as we speak. We are actively working to improve the control environment, and are implementing, at the direction of the Board, remedial actions to improve these controls. I think – and we will address that in the 2004 10-K with the SOX requirement and the 404 certification. It's clear, though, at this point that we have at least one material weakness, and that is in our fixed asset control system.

Just to give you an update – or before Dick gives you the update, I would go over some of the balance sheet items that we have right now. Cash at March 4 totaled approximately \$92 million. I would add that the Company just paid some \$11 million in interest this month. We have some \$48 million outstanding under our revolving credit facility, 150 million of the 6 3/8 notes and 275 million of the 8 3/8 notes.

We've had a number of questions as to what we will do with the 8 3/8 notes. They are callable now. I would tell you that our focus and our primary objective is to complete the restatement. We will simply evaluate the refinancing of those 8 3/8 notes once all filings are up to date.

I know this has been a long conversation, this is a long presentation and it's been a long process that we are going through, but that's the current view of where we see our filing matters. Again, we think March 31 is achievable. There is a lot of work that's left to be done. I think we have the right resources to get it completed, but a number of things could happen to derail us.

I will turn it back to Dick, now for an update of the activities.

Richard Alario, Chairman, President, and Chief Executive Officer

Bill, thanks a lot, and I want to take just a moment to thank all of those in the Company for the extremely demanding work that they have done in support of this process. You have heard us talk in the past about how torturous this thing has been, and it's nice to be able to begin to see the end of the process.

Before I update activity and operations, I want to put into my own words where I feel the Company currently stands relative to this matter. Very clearly, we intend to fix these issues and manage them appropriately going forward. As evidence, we have implemented – the Board and management have implemented a number of new policies; these are all discussed in detail in this draft 2003 10-K that we've begun to put together and most of them have been previously disclosed.

We've made extensive changes to the management team here, the executive team, as well as changed out a number of our senior managers. We will be increasing the size of our internal audit

department and our financial staff. And our bottom-line is this management team does not want to be faced with this problem again in going forward.

Moving into the activity update, as you might imagine with the business as it is, our activity levels are extremely strong. Our rig hours are now averaging 48,000 hours a week, and that is net of the 3500 that we no longer count, which were separated from the company as we divested our drilling assets back in – most of our drilling assets back in January.

Our transportation, our trucking hours, are averaging about 49,000 hours a week. That is lower than a year ago at this time. However, we can tie that directly back to the result being, of significant price increases that we've put in place. So we've accomplished a great deal getting the price of that service up and we are happy with that.

You've heard me say before that our pressure pumping business is sold out. That is still the case. In fact, on our last call in January, we talked about being close to making a decision to expand that business. We have made that decision and ordered 10,000 additional hydraulic horsepower. We'll take delivery of this new equipment in early fall. We also talked in January about evaluating a possible move in to the Rocky Mountain region and we are extremely close to making that decision, although it hasn't been made yet.

As far as our fishing and rental services business, it's a healthy business, it always has been, and it's improving under the new management team there. I will take just a moment anecdotally to tell you that we were recently awarded a new contract for 2005. This is a Gulf Coast region, both onshore and offshore, contract in our fishing business. And what I liked about it and I think is important, as we begin to execute on the synergistic value of some of our product lines coming together, this was a case where our customer, a very large E&P, was incented to award this business to Key due to our ability to tie fishing and rental services to our well service rig business, particularly in their onshore section.

This was an effort by the customer to reduce the amount of rig standby time while waiting to complete the fishing process that was being performed by another service provider. So to me it's great proof that there is synergy there and Key has the ability to execute on that synergy and bring those services together.

As far as the methodology, we said in a release recently we have changed fairly significantly the methodology for accounting rig hours. And in addition to reducing the billable hours by those generated by the drilling rigs that we divested in January, I want to walk you through two other components that we announced that have changed. Relative to our rig hours, going forward, they will include all billable hours that we actually invoice our customers for. Historically, some of our divisions did not include things like travel time, standby time and mobilization and demobilization in their reporting, even though we billed for those services.

The change does not impact our revenue; we have always picked up the revenue for those functions. But what it will do is allow us to do a more uniform analysis of our operations. And the good news is on top of that is, it is a result of the deployment of our KeyOps work ticket to invoice operating system. We believe that the impact of this change will add from 3% to 3.5% to our total rig hours going forward.

As far as trucking, we announced that going forward we are going to include our Argentina truck hours, which we did not break out separately before. Our business in Argentina is a rig hauling business, primarily done using our own equipment. So, the revenue from this trucking business is less than 0.1% of our total revenues. So, not much change there, but we thought it was important to walk everyone through these changes in our rig and truck hour methodology.

As far as international is concerned, first Canada – all 10 rigs have been deployed up into Canada. Some of them, two or three of them are still being winterized, but the ones that have come out of that process are out working. Our relationship with IROC Systems the company that we partnered with, is extremely strong. In fact, Bill Austin, our CFO is on the Board up there, and reports from his recent board meetings that he is very impressed with the management team and the way that they are going out into the marketplace to execute.

We are going to be looking for ways to expand our partnership with IROC, but at this point no formal agreements have been made. By the way, when we purchased our shares in IROC in exchange for the rigs that we sent up there, the selling price for their stock was about \$1.12 and it's now at \$1.80. So we've already seen about a 60% increase in our basis from the relationship with IROC.

Relative to Mexico, we are in the negotiation phase now with Pemex; the negotiations are proceeding well. However, we can't elaborate yet on the specifics of the project that we have targeted down there, but again, I want to say that the negotiations are going well. I would also make the point, we've talked about the company's ability to execute in the international marketplace. And we have lots of questions about where we are targeting, and I want to just mention a few places where we currently have either sales initiatives or some negotiations taking place. That's happening in Saudi Arabia, Oman, Libya, Egypt, Romania, Colombia and Brazil and, of course, Mexico.

An update on our KeyView technology, currently we have 153 KeyView units out on rigs today. Of course, as we said the technology continues to perform well. And by the way several of those international opportunities that I mentioned a minute ago are being driven by operators who are extremely interested in the KeyView technology. Bottom-line, our main issue with KeyView today is continuing to market the value of the service to our U.S. customer base.

Relative to our Houston headquarters move that we announced about a month ago, we do expect the move to occur early summer and hope to have it completed by the end of June. We will have about 60 to 75 employees in the office space once it's complete, and about 15 to 20 of those will come from the Midland office, the rest we will move from our existing Houston office. And as I have said in the past, what's going to happen here in Midland, we will move more toward a shared services organization, so that those functions will continue to reside here in the Midland corporate complex.

2005 CapEx, our budget is approximately \$100 million. In addition, we have already asked and gotten approval from the Board for the additional 5 million that I mentioned earlier for the 10,000 hydraulic horsepower for pumping. That will allow us – the 100 million will allow us to remanufacture approximately 56 rigs. And just to give you some sense, for the U.S. marketplace in 2004, we remanufactured internally about 28 rigs and 10 for Canada. So you can see it's a significant increase.

We are targeting about 77 heavy-duty truck additions in this \$100 million CapEx budget. And the budget does not include any money for other international expansion. We are doing that on a contingency basis and getting that approved by the Board as we get contracts in place internationally.

I would say in conclusion, our operations are strong. At this point, we expect conditions to remain stable and possibly improve in 2005. We are hopeful as we said, that we could finish the restatement process before March 31, but I don't feel comfortable making any guarantees about that.

The most important thing to me – and as Bill said, to all of us - is to make sure that we get this process right, more so than getting it done by a certain time. I do however believe that we are in the

final stages, and I see the process nearing completion. Again I want to thank all of our stakeholders for their patience during this process.

And with that we are completed with our prepared notes, and I would turn the conference over for a short question-and-answer period.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Your first question is from the line of James Wicklund, Banc of America Securities. Please go ahead.

<Q – James Wicklund>: Good morning guys.

<A>: Good morning.

<Q – James Wicklund>: Is it possible to financially incentivize accounting firms to hurry up these days?

<A – William Austin>: What a leading question. I think you'll have to ask that of the accounting firms, but I would tell you, generally speaking, no.

<Q – James Wicklund>: Okay, just one of those things, I didn't think so, but if I didn't ask I would never know. So we are looking at –

<A – William Austin>: I will tell you that I think KPMG, as I said in my prepared remarks, I think they have provided the right resources here and they are doing what's necessary to meet our deadlines. So I think they have been very forthright in providing resources.

<Q – James Wicklund>: For that I have no doubt, but in the wake of Arthur Anderson, the idea that an accounting firm is going to operate on your schedule rather than their lack of liability schedule is the biggest concern, but nothing any of us can do about that.

<A – William Austin>: And that's one of the items we pointed is out of our control.

<Q – James Wicklund>: Right. So under a best-case timeline, you will get all of your filings done and caught up by about August 15?

<A – William Austin>: That's correct.

<Q – James Wicklund>: Okay. Now tell me the implications of the Sarbanes-Oxley. You are currently – you've revealed a couple of areas where the company lacked effective internal controls. Does this mean that you are likely to not get Sarbanes 404 clearance?

<A – William Austin>: Well, number one, if you look at the 2003 statement, there is no 404 certification for that, so we expect to move forward on 2003. And there will be no commentary about – well, actually there will be a commentary. We will more than likely say as a subsequent event that we have had a material weakness in at least one of our systems. That's not to say that – and we will do our own self-assessment, and that self-assessment will be part of the 2004 10-K. That self-assessment will be looked at by KMPG and what – they can either agree with our self-assessment or they can disagree and say we have missed certain things. But we believe that 2003, we are on the right track to get an unqualified opinion. And we think, as far as 2004 is concerned, that we've provided in most cases the right environment, the right controls, that we have implemented those with some exceptions on 2004, because we can't obviously test, if you will, the financial reporting control situation in 2004. So we will have that as a deficiency at that point. We don't believe that that necessarily means we can't get a qualified, or an unqualified opinion, however.

<Q – James Wicklund>: Yeah, it was the timelines – if you put in your '04 10-K by June 30, I didn't know how that matched the Sarbanes-Oxley timing requirements.

<A – William Austin>: Well, we're clearly past the timing requirements. But you know if you – we'll get another chance next year, but we will get an opinion out of – we believe we will get an opinion out of KPMG as to where we were at the end of 2004.

<Q – James Wicklund>: Okay.

<A – William Austin>: And they will be – they have not done a lot of testing at this point, they will be doing testing in the very short – in the near future. They will be trying to test as of December '04. That gives some challenges, I would tell you, but they will make an assessment about, frankly, our assessment, and they will have some testing that they will apply to it as well.

<Q – James Wicklund>: Okay last question. Gentlemen, last conference call there was a small mini bomb-let dropped talking about an FBI subpoena of financial information? I didn't see anything referring to that in your press release. Can you catch us up on where that stands?

<A – Richard Alario>: Yeah, the reason there's nothing in there, Jim, is, there's really nothing to update. The has company provided its documents to the FBI and beyond that we can't comment on the nature of the document request, so really it's status quo.

<Q – James Wicklund>: Okay. Gentlemen good luck.

<A – Richard Alario>: Thanks a lot.

<A – William Austin>: Thank you.

Operator: Your next question or comment is from the line of Roger Read of Natexis. Please go ahead.

<Q – Roger Read>: Good morning, gentlemen.

<A>: Good morning.

<Q – Roger Read>: Quick question just to – one of the things that has been noted out there, no comments from you guys today. NYSE listing requirements, is there any risk if you don't file March 31 on that, for the 2003 statements?

<A – William Austin>: We've had some good conversations with the New York Stock Exchange, but frankly if we don't file by March 31, the de listing process will certainly begin. And then it's our understanding that on April 1, the New York Stock Exchange will start that process. We would expect to receive a notice stating that the suspension procedures have commenced. And then, of course, we intend to appeal that. However, there is no guarantee that we'd be successful in our appeal. And even if we file the 10-K during the appeal process, while we hope that it would help us, we still believe we will be suspended. Now we have contacted the Pink Sheets as a contingency and we are being quoted by them now. But I would tell you the process, if we don't file by March 31, the process will begin – the de-listing process.

<Q – Roger Read>: Okay.

<A – William Austin>: And by the way, again I just have to add one other thing here. We have talked about our target here and this is the end of a long process, a yearlong journey, if you will. The key thing for us to do – this new management team – is to make sure not only that we get it right but that we make sure this never happens again. And while our target is March 31, our first objective is to make sure we get it right. And we have a lot of people, Dick made a commentary that he appreciated all of the internal people that are working days, weeks and nights, weekends, we've

got the situation so that everybody is pulling in the same canoe to get this thing done, but we have to get it right.

<Q – Roger Read>: I understand completely with you on that. Turning to the operational standpoint, if we look at the change in the cash balances, the 92 million as of March 4, up from 19 at the end of the calendar year, and then we adjust out for the 11 million interest payment – I don't know what your CapEx is in the quarter to date, but it looks like you've generated about 20 million of free cash. Is that a fair way to look at it?

<A – William Austin>: The arithmetic works.

<Q – Roger Read>: And then finally, kind of just a question on the activity levels, if you look at the fourth quarter in terms of well services revenue, you were flat with the third quarter. That's a pretty outstanding accomplishment in what's typically a seasonally difficult quarter. Can you give us an idea of how much of that was just flat out activity versus how much was pricing in terms of realization of the pricing?

<A – Richard Alario>: Well, it's a little difficult on the activity side. I will tell you that we probably pushed the hours somewhat, particularly relative to our customers' demands. We are trying, as asked for by our customers, to stretch every reasonable hour we can, particularly on the well service rig side. There is a piece of it, I think, tied to our ability to be able to get just a few more hours a week out of every rig. We are turning work down in a number of our regions of operations. But I have to tell you that internally, we are doing everything we can to track the pricing effectiveness, and we are seeing some impact of that. I just – it's very difficult for me to provide that balance to you right now, but I'll tell you that it comes from both ends of the – the increase comes from both of those items that you mentioned a minute ago.

<Q – Roger Read>: Okay and just one other little question. The number of well service rigs you expect to refurbish in 2005, I missed that number when you went through the CapEx before?

<A>: 56 –

<A – Richard Alario>: Yeah, 56.

<Q – Roger Read>: 56. Okay, thank you, gentlemen.

<A>: In the budget.

<A>: And that doesn't include anything we might do if the international expansion comes forth.

<A – Richard Alario>: Yeah, the contingency plan if, for example, we were to need to add rigs in either Mexico, Canada, or some other market, we have outside vendors that are capable of remanufacturing these rigs for us. We prefer obviously to do them internally. But at some point, we can go to double crews on our refurbishing facility out here, and expand their capabilities but then go outside for some of that service as well. So, we could actually ramp that number up if the conditions dictated that we needed to.

<Q – Roger Read>: Thank you.

Operator: Your next question is from the line of Bob Christensen of Buckingham Research Group. Please go ahead.

<Q – Robert Christensen>: Yeah I am trying to get a sense of the overall cost of this restatement process. I mean coming down to the wire here, burning all these candles. The legal and the

auditing, is there – in the 10-K – is there going to be some summary of the cost of this whole process.

<A – William Austin>: Yeah, I'm doing some back of the envelope calculations. We are probably talking 1 million a month, plus the cost of all the interest costs, and I haven't figured that out, but it's obviously substantial to the cost here.

<Q – Robert Christensen>: The 1 million a month, when does that go back to?

<A – William Austin>: It goes back to probably April of last year.

<A>: Yeah, probably the month of April, is when it kicked off, the increased costs, once the audit and the investigations began.

<A – William Austin>: And some months have been higher than that. It depends.

<Q – Robert Christensen>: And you have been expensing this all along, I mean in –

<A>: Yes.

<Q – Robert Christensen>: Right. Thanks. Second question is, the word environmental always is a bogeyman. And you say substantially more than \$14 million. What kind of environmental things are we looking at?

<A – William Austin>: Well, first you have to be careful. We over-accrued for our environmental. We didn't – this is not something that we are going to back and increase the reserves. We are actually going to decrease the reserves. When we did this QSI acquisition, we booked a \$14 million environmental reserve, we overbooked that environmental reserve.

<Q – Robert Christensen>: It's a positive then, if you are decreasing it?

<A – William Austin>: Yes, it's a positive.

<Q – Robert Christensen>: Okay.

<A – William Austin>: It's interesting, it won't come to the bottom line, however, it will just go as a change in our purchase accounting treatment. So it's not going to be a windfall to the income statement or what have you. But frankly, if you look at what we did at that time we over-accrued and we under-accrued to the P&A liabilities. So they are not quite offsetting, but it's actually a positive here. And when we look at the environmental reserve that we should book right now, it's substantially below the \$14 million.

<Q – Robert Christensen>: And the P&A is on your former E&P operation?

<A – William Austin>: No, it's just on everything from mud pits to SWDs and others that we did not accrue enough plugging and abandonment costs there.

<Q – Robert Christensen>: On other – on third party properties, I mean – ?

<A – William Austin>: No these would be our properties.

<Q – Robert Christensen>: Your E&P properties?

<A>: Yes.

<A – Richard Alario>: Bob, the number of – the company owns a number of saltwater disposal wells...

<Q – Robert Christensen>: Okay, I got it.

<A – Richard Alario>: ... that we use in order to help our customers to deal with the produced water that they generate out of their wells. These are wells that we are required to have a P&A liability set up on the books for, and that's where – those are the wells we are talking about.

<Q – Robert Christensen>: Okay I just wanted to make sure it's not your own E&P, which was a relatively small operation.

<A>: No.

<Q – Robert Christensen>: So it was a handful of your disposal wells that came, that you added to your company when you bought Q Services?

<A – William Austin>: We had some, too.

<A>: We owned some as well.

<Q – Robert Christensen>: Right, I remember. And so as you have a higher P&A on those disposal wells, is that what you are saying?

<A>: That's correct.

<A>: That's right.

<Q – Robert Christensen>: Okay so, in other words, you have a well and it's plugging and abandonment, what happens to that disposal operation? Is it no more? Is it defunct, you move on and you create another place for disposal?

<A – Richard Alario>: Right, we find another well, with a deep zone in it that you can dispose of these fluids in, and then plug and abandon the one that it is no longer usable.

<Q – Robert Christensen>: And coming to this useful lives question, what – can you put some range on what kind of equipment and what kind of lives we miscalculated on?

<A – William Austin>: I think at this time we'll just leave it as it is. We are looking at all the depreciable lives. I have no reason to believe that it's a material issue, but we are still looking at that – we have a position and we are talking about that position with KPMG right now.

<Q – Robert Christensen>: And I didn't really gather the de listing. I mean is that something that – it sounds like if you don't make it, it happens. There is no – you can appeal it, but the process begins – I mean is it a quick process once it begins?

<A – William Austin>: Generally it's a pretty quick process. The fact of the matter is, if we don't make it by March 31, the de listing begins and it takes a Herculean effort to stop that process. And in fact what happens is we get suspended almost immediately, we go on to the Pink Sheet, and it's the SEC that really does the de listing here. And so we would be traded on the Pink Sheets – and, as I say, we have made a provision, if we don't make March 31 to trade on those Pink Sheets.

<Q – Robert Christensen>: And then how about getting re-listed, is that a whole –

Key Energy Services, Inc.

Company▲

KEG

Ticker▲

Restatement and Activity

Update

Event Type▲

Mar. 7, 2005

Date▲

<A – William Austin>: Well you have to be current in all your financial statements, so the first chance we'd really get to be re-listed would be when we catch up to all the financial statements which we are targeting August of this year.

<Q – Robert Christensen>: That would be the, what the second quarter 2005 Q.

<A – William Austin>: That's correct. And then we would have to fill and meet all of the listing requirements of the New York Stock Exchange at that point.

<Q – Robert Christensen>: Well, good luck, okay. That's sounds like a bigger task than I had imagined. Okay, well thank you for your update.

<A>: Thanks a lot.

Operator: And next question or comment is from the line Robin Shoemaker of Bear Stearns. Please go ahead.

<Q – Robin Shoemaker>: Yeah, thanks. You mentioned the debt that becomes callable later on in the year when you present your audits and financials. Is it still Key's goal to bring down debt using free cash flow? And that would obviously be a refinancing opportunity, but how much progress or how much priority does further debt reduction have in your planning horizon for '05 and '06?

<A – Richard Alario>: We think that the debt level of the company at this point is acceptable. We would look for opportunities if they made sense, but not at the – not at the offset of opportunities to make strategic acquisitions or grow the business internationally that would be more gainful for us going forward.

<A – William Austin>: We think we have enough cash on hand that we can do something, not only with the 8 3/8, but - we will knock the debt down, but we don't want to pass up opportunities either.

<Q – Robin Shoemaker>: Okay. And, Dick, I didn't hear you, if you could give us an update on the pricing initiatives in well servicing. What regions you have the most success this year, and, or lesser success, and kind of bring us up to date there, and also on the pressure pumping pricing environment?

<A – Richard Alario>: In well servicing the region that probably stands out the most is the Rockies, that's where the capacity constraint is the greatest. And if you've heard us speak in the past, the one that we seem to have had the most softness is in south Texas. But I can tell you our people in south Texas have done a wonderful job of driving the price increases, and I would not say at this point any longer that South Texas is the most crucial area. Activity down there has started to firm up which has helped us. And we've had some turnover in our customer base, so things are actually going better down there as well. So those were the bookends. And I would say that ArkLaTex Region, north Texas, Mid-Con oil, and Four Corners, are all markets that are fairly strong, and I've got to also add California. Relative to pressure pumping, we continue to get price. We view it on a different timetable than our well servicing business. But as I've said in the past, what's happening primarily in our pressure pumping business, as we add capacity and operate effectively we are getting an opportunity on a regular basis to work for larger operators who have more demanding projects and I think that's one of the opportunities that we wanted to tackle in 2004-2005. And I am really pleased that we have been able to do that.

<Q – Robin Shoemaker>: Okay and on the business that's - where you have sort of contractual sort of ongoing contacts, just how much notice are you giving of price increases? So that if something is applicable in short-term contracts when does it fold into the contract business?

<A – Richard Alario>: Normally 30 days. We have one or two that require a 60-day notice, but normally we work off 30-day notice for a price change.

<Q – Robin Shoemaker>: Okay thanks a lot.

<A>: Thank you.

Operator: Your next question or comment is coming from the line of Pierre Conner, Hibernia Southcoast Capital. Please go ahead.

<Q – Pierre Conner>: Good morning, everybody.

<A>: Good morning, Pierre.

<Q – Pierre Conner>: First, to follow up on Robin's question, which was I was going to ask about. On those longer term contracts, Dick, can you tell us what percent of that is on current pricing and, i.e. is there some of that that hasn't rolled yet to even your current pricing?

<A – Richard Alario>: There is not much out – well, most current pricing that we've put in place, new pricing that we've put in place effective January 1, I think we are probably in the 50% range as having been converted over. We don't have any customers that are still on pricing from prior to our July 15 across the board increase that we put in place.

<Q – Pierre Conner>: Okay, so, all that's in and still the January 1st. Okay. Good. And, Dick, on activity levels, and maybe this is a question that revolves around how many actual rigs – and I am not asking you to reconcile with what, say, Baker Hughes talks about when they give a rig count - but it looks to me like there is just, it's an increase in hours. Are you working more weekend hours, you mentioned it I think, alluded to it, with squeezing more hours out. Is it that versus more equipment?

<A – Richard Alario>: It's more – it's stretching the current equipment that we have now. We did as you know put a few rigs, added a few rigs to our fleet last year, but it has more to do with weekends, converting more rigs to 24-hour rigs, pushing the daylight hours as much as we can. But no real increase in the number of rigs other than those few that we added to the fleet through our remanufacture process last year.

<Q – Pierre Conner>: Okay. And so then how does that compare to the 56 you would like to remanufacture in this year. Do you see those as – what percent of those will be replacement of older units and, therefore, hopefully, getting better rates? And what of those would be incremental pieces of equipment?

<A – Richard Alario>: Not many of them will be incremental. A number of them will be replacements of existing equipment. Of course, then some of that becomes inventory for future remanufacturing. But most of it is not expansion of our fleet. We have such a nice market share. Our goal is not to expand the fleet very well. Our goal is to have the best equipment out there for our customer base. And so that's the focus of the current remanufacturing process. As I said, the other focus is to provide remanufactured rigs for our international expansion. So again, on a net basis, it would not add rigs to the US fleet, in fact it may take a few away.

<Q – Pierre Conner>: Okay. And then I know that you can't talk too much about Pemex, but could you bracket a little bit, is it something that we would be thinking about hearing in 6 months or 3 months, or what kind of timeframe?

<A – Richard Alario>: We have said in the past year that we anticipate having the contract signed by mid year and there is nothing out there right now that tells me that that would change.

<Q – Pierre Conner>: So, that's still the date, that's good. Okay, and I think all the other questions I had about the listing in particular have been addressed. I understand that's a pretty quick process as you have mentioned, Bill.

<A>: Yeah.

<Q – Pierre Conner>: All right. I think that's it, all the rest has been answered. Thank you very much.

<A>: Okay.

Operator: Your next question is from the line of Ian MacPherson of Simmons & Company. Please go ahead.

<Q – Ian MacPherson>: Hi, good morning. Did you already address, and if you have, I am sorry, I missed it, the magnitude and the timing of your last pressure pumping pricing advance?

<A – Richard Alario>: No, we didn't address it. It was shortly after the first of the year and it was in the high single digits.

<Q – Ian MacPherson>: Okay. And can you describe how much of that has flowed through to the bottom line?

<A – Richard Alario>: No, it was – it's fairly recent and it doesn't apply to all of our customers. It applied to our non-contract business. Although, I would tell you that in our pressure pumping business we have more non-contract customers than we do in well services.

<Q – Ian MacPherson>: Okay, and just a follow up on the DD&A line, how do you see that directionally sort of changing after the restatement process is completed? What's your sense of, without being too specific, where DD&A is heading?

<A – William Austin>: I think it's a little too early for me to project that out especially I want to talk about the depreciable lives issue, but we will do that very shortly. Just a little early to do it now.

<Q – Ian MacPherson>: And are we going to be having some more concrete earnings guidance or specific financial guidance following the March 31 deadline for '05?

<A – William Austin>: We will just to have to see at that time just how we feel and how confident we are to make those kinds of projections.

<Q – Ian MacPherson>: Okay. Thank you.

Operator: Excuse me gentlemen; we have time for one more question. Your final question is from the line of Matthew Mark of Jett Capital. Please go ahead.

<Q – Matthew Mark>: Hi guys. Can you, Bill, walk through what impact the P&A liability under-accrual would have had on the income statement of the company, historically? Is it just as simple as the company should have been accruing more of a liability - that that would have shown up somewhere in SG&A on the income statement or in cost of goods on the income statement, as the first question. And then second, just because there is no mention in the press release of timing with respect to the P&A liability estimate, can you comment – is it possible to comment on when that issue got corrected, and whether or not on the monthly statements that the company's been releasing, whether or not that's accounted for correctly?

<A – William Austin>: Yeah, what we will have when we do the P&A, it will be a cumulative effect. It should not have any P&L effect, at least at this juncture.

<Q – Matthew Mark>: What would the impact have been - should SG&A have been higher because the liability was being under-accrued?

<A – William Austin>: Well, the liability was under-accrued. But I can't give you a number yet, because we've got a position on that, I just don't have that position agreed now with KPMG. And the reason this came up, I will give you that, as we started looking at these environmental reserves and how we had calculated the environmental reserve on the Q acquisition, it was clear that some of the accrual should have been P&A-type accruals at that time. And that's where we really started to delve into it and get to that – that P&A liability.

<Q – Matthew Mark>: Without asking you for a number, if I look at the size of the environmental reserve which you did disclose, and I thought about how big of an under-accrual in A&P it might be, would that number help?

<A – William Austin>: I know you are working for a number here. I can't give you a number, but it's certainly less than the number that was booked on the environmental liability.

<Q – Matthew Mark>: Thank you, that's sort of all I needed. I appreciate it, thanks a lot guys.

Richard Alario, Chairman, President, and Chief Executive Officer

Thanks a lot. Just to wrap up, I just want to say that the new management team here is extremely excited as we enter the final phase of this process. Fortunately we've had great support from the marketplace and we expect that to continue. Again, I want to thank our stakeholders for their patience with the Company during these most recent quarters. But again I want to express that we believe that we are nearing the end of this phase and we can see the end line. And we just simply have to push the ball over the goal line. Thanks a lot for your participation in the call.

Operator: Ladies and gentlemen, this conference will be available for replay at 5:00 PM Eastern Time tonight. This will be available from 5:00 PM Eastern tonight until March 15 at midnight. You may reach this call by dialing 1800-475-6701 with the access code of 772233. That does conclude your conference for this morning. Thank you very much for using AT&T Executive, you may now disconnect.

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