

Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

NATURAL GAS SERVICES GROUP INC  
Form 10QSB  
May 16, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2005

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to \_\_\_\_\_

Commission File Number 1-31398

NATURAL GAS SERVICES GROUP, INC.  
(Exact name of small business issuer as specified in its charter)

Colorado  
(State or other jurisdiction of  
incorporation or organization)

75-2811855  
(I.R.S. Employer  
Identification No.)

2911 SCR 1260  
Midland, Texas 79706  
(Address of principal executive offices)

(432) 563-3974  
(Issuer's telephone number, including area code)

N/A

-----  
(Former name, former address and former fiscal year,  
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
--- ---

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding at May 16, 2005
Common Stock, \$.01 par value	6,782,764

Transitional Small Business Disclosure Format (Check one): Yes No X  
--- ---

# Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

NATURAL GAS SERVICES GROUP, INC.

## Part I - FINANCIAL INFORMATION

-----

### Item 1. Financial Statements

Unaudited Consolidated Balance Sheet.....Page 1

Unaudited Consolidated Income Statements.....Page 2

Unaudited Consolidated Statements of Cash Flows.....Page 3

Notes to Unaudited Consolidated Financial Statements.....Page 4

Item 2. Management's Discussion and Analysis or Plan of Operation.....Page 7

-----

Item 3. Control and Procedures.....Page 10

-----

## Part II - OTHER INFORMATION

Item 1. Legal Proceedings.....Page 11

-----

Item 6. Exhibits.....Page 11

-----

Signatures.....Page 17

Natural Gas Services Group, Inc.  
Condensed Consolidated Balance Sheet  
(unaudited)  
March 31, 2005

ASSETS

Current Assets:

Cash and cash equivalents	\$ 1,370,843
Accounts receivable - trade, net of allowance	3,494,876
Inventory	10,620,317
Prepaid expenses	218,955
	-----

Total current assets	15,704,991
----------------------	------------

Lease equipment, net of accumulated depreciation	31,150,928
Other property, plant and equipment, net of depreciation	6,421,495
Goodwill, net of accumulated amortization	8,124,216
Intangible, net of accumulated amortization	4,219,767

Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

Restricted cash	2,000,000
Other assets	137,403
	-----
Total Assets	\$67,758,800
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Current portion of long term debt	\$ 5,399,056
Bank line of credit	18,087
Accounts payable and accrued liabilities	5,429,194
Unearned Income	731,673
	-----
Total current liabilities	11,578,010
Long term debt, less current portion	18,998,407
Subordinated notes, net of discount	4,465,538
Deferred income tax payable	3,485,610
	-----
Total liabilities	38,527,565
Common Stock	67,825
Paid in Capital	21,778,261
Retained Earnings	7,385,149
	-----
Shareholders' Equity	29,231,235
	-----
Total Liabilities and Shareholders' Equity	\$67,758,800
	=====

See accompanying notes to these condensed consolidated financial statements.

1

Natural Gas Services Group, Inc.  
Condensed Consolidated Income Statements  
(unaudited)

	Three months ended March 31, 2005	2004
	-----	-----
Revenue:		
Sales	\$ 7,146,137	\$ 889,965
Service and maintenance income	463,781	423,602
Leasing income	3,431,317	2,254,784
	-----	-----
	11,041,235	3,568,351
	-----	-----
Cost of revenue:		
Cost of sales	5,622,167	646,394
Cost of service and maintenance	290,099	336,250
Cost of leasing	1,207,758	568,409
	-----	-----
Total cost of revenue	7,120,024	1,551,053
	-----	-----
Gross Margin	3,921,211	2,017,298
Operating Cost:		

Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

Selling expense	229,691	177,389
General and administrative expense	903,800	488,260
Amortization & depreciation	950,815	526,685
	-----	-----
	2,084,306	1,192,334
	-----	-----
Operating income	1,836,905	824,964
Interest expense	(421,773)	(180,608)
Other income	10,835	1,501,081
	-----	-----
Income before income taxes	1,425,967	2,145,437
Income tax expense	527,607	251,698
	-----	-----
Net income	898,360	1,893,739
Preferred dividends	--	27,922
	-----	-----
Net income available to common shareholders	\$ 898,360	\$ 1,865,817
	=====	=====
Earnings per share:		
Basic	\$ 0.13	\$ 0.37
Diluted	\$ 0.11	\$ 0.36
Weighted average Shares:		
Basic	6,728,095	5,065,327
Diluted	7,827,206	5,221,441

See accompanying notes to these condensed consolidated financial statements.

2

Natural Gas Services Group, Inc.  
Condensed Consolidated Statements of Cash Flows  
(unaudited)

	Three Months Ended March 31, 2005	M
	-----	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 898,360	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	950,815	
Deferred taxes	527,610	
Amortization of debt issuance costs	16,239	
Gain on disposal of assets	(45,846)	
Changes in current assets and liabilities:		
Trade and other receivables	1,342,909	
Inventory and work in progress	(1,596,502)	
Prepaid expenses and other	(30,672)	
Accounts payable and accrued liabilities	829,651	
Deferred income	(226,640)	
Other assets	297,858	
	-----	
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,963,782	

Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

-----	
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(4,667,716)
Assets acquired, net of cash	(7,553,965)
Proceeds from sale of property and equipment	180,166
	-----
NET CASH USED IN INVESTING ACTIVITIES	(12,041,515)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net proceeds from bank loans	13,469,113
Repayments of long term debt	(4,014,839)
Dividends paid on preferred stock	--
Proceeds from exercise of warrants and stock options	309,115
	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	9,763,389
	-----
NET INCREASE IN CASH	685,656
CASH AT BEGINNING OF PERIOD	685,187
	-----
CASH AT END OF PERIOD	\$ 1,370,843
	=====
	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	\$ 378,027
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Assets acquired for issuance of subordinated debt	\$ 3,000,000
	=====
Assets acquired for issuance of common stock	\$ 5,120,438
	=====

See accompanying notes to these condensed consolidated financial statements.

3

NOTES TO CONDENSED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited financial statements present the consolidated results of our company taken from our books and records. In our opinion, such information includes all adjustments, consisting of only normal recurring adjustments, which are necessary to make our financial position at March 31, 2005 and the results of our operations for the three month period ended March 31, 2005 and 2004 not misleading. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC) the accompanying financial statements do not include all disclosures normally required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2004 on file with the SEC. In our opinion, the consolidated financial statements are a fair presentation of the financial position, results of operations and cash flows for the periods presented.

The results of operations for the three month period ended March 31, 2005 are not necessarily indicative of the results of operations to be expected

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

for the full fiscal year ending December 31, 2005.

### (2) Stock-based Compensation

Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," encourages, but does not require, the adoption of a fair value-based method of accounting for employee stock-based compensation transactions. However we have elected to apply the provisions of Accounting Principles Board Opinion No. 25 ("Opinion 25"), "Accounting for Stock Issued to Employees," and related interpretations, in accounting for our employee stock-based compensation plans. Under Opinion 25, compensation cost is measured as the excess, if any, of the quoted market price of our stock at the date of the grant above the amount an employee must pay to acquire the stock.

Had compensation costs for options granted to our employees been determined based on the fair value at the grant dates consistent with the method prescribed by SFAS No. 123, our net income and earnings per share would have been reduced to the pro forma amounts listed below:

	Three Months Ended March 31,	
	2005	2004
Pro forma impact of fair value method		
Net income available to common shareholders, as reported	\$ 898,360	\$ 1,865,81
Pro-forma stock-based compensation costs under the fair value method, net of related tax	(46,000)	(10,00)
	\$ 852,360	\$ 1,855,81
Pro-forma income applicable to common shares under the fair-value method		
Earnings per common share		
Basic earnings per share reported	0.13	0.3
Diluted earnings per share reported	0.11	0.3
Pro-forma basic earnings per share under the fair value method	0.13	0.3
Pro-forma diluted earnings per share under the fair value method	0.11	0.3

4

### Weighted average Black-Scholes fair value assumptions:

Risk free rate	4.0%-6.8%	4.0%-5.2%
Expected life	0-10 yrs	5-10 yr
Expected volatility	39.0%	44.0
Expected dividend yield	0.0%	0.0

### (3) Acquisition

On October 18, 2004, we entered into a Stock Purchase Agreement with Screw Compression Systems, Inc., or "SCS", and the stockholders of SCS. Under this agreement, we agreed to purchase all of the outstanding shares of capital stock of SCS for the purpose of expanding our product line, production capacity and customer base.

SCS is a manufacturer of natural gas compressors, with its principal offices located in Tulsa, Oklahoma.

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

The stockholders of SCS received, in proportionate shares (based on their stock ownership of SCS), a total of \$16.1 million.

- o \$8 million in cash;
- o promissory notes issued by Natural Gas Services in the aggregate principal amount of \$3 million bearing interest at the rate of 4.00% per annum, maturing three years from the date of closing and secured by a letter of credit in the face amount of \$2 million; and
- o 609,576 shares of Natural Gas Services common stock valued at \$5.1 million. All of the shares are "restricted" securities within the meaning of Rule 144 under the Securities Act of 1933, as amended, and bear a legend to that effect.

This transaction was completed January 3, 2005 and we began reporting combined financial results for the first quarter 2005 included in this report. The total purchase price was \$16.1 million and we recorded goodwill of \$4,984,561 and intangibles assets of \$4,218,000.

The following table represents the combined results of operations on a proforma basis with Natural Gas Services Inc. and Screw Compression Systems, Inc. as if the acquisition had occurred on January 1, 2004.

(Unaudited)	
Pro Forma Results	
Three Months Ended March 31, 2004	
Revenue	\$8,900,478
Net income	\$2,303,348
Net Income per share, basic	\$0.41
Net income per share, diluted	\$0.40

#### (4) Long Term Debt

On Jan 3, 2005 we amended our existing loan agreement with Western National Bank to provide additional borrowings for the cash portion of the SCS acquisition of \$8 million for 84 months and interest of 1% over the prime rate. This funding was provided by entering into a Third Amended and Restated Loan Agreement made and entered into by and among Natural Gas Services Group, Inc., and Screw Compression Systems, Inc., and Western National Bank.

5

On March 14, 2005 we amended our existing loan agreement with Western National Bank to provide additional borrowings of \$10 million for 60 months and interest of 1% over the prime rate. This funding will be used to invest in the growth of our rental fleet for the current year. This funding was provided by entering into a Fourth Amended and Restated Loan Agreement made and entered into by and among Natural Gas Services Group, Inc., and Screw Compression Systems, Inc., and Western National Bank.

On May 1, 2005 we modified our existing loan agreement with Western National Bank to reduce the current interest rate from 1% over prime to .50% over prime and changed the current ratio calculation from 1.5 to 1.4 and this modification also allowed us to add the \$2 million restricted cash item on our balance sheet to our current assets for calculating the bank covenants.

#### (5) Earnings per common share

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation.

	Three Months Ended March 31,	
	2005	2004
Basic earnings per share		
Numerator:		
Net income	\$ 898,360	\$ 1,893,739
Less: dividends on preferred shares	--	(27,922)
	\$ 898,360	\$ 1,865,817
Denominator -		
Weighted average common shares outstanding	6,728,095	5,065,327
	\$ 0.13	\$ 0.37
Diluted earnings per share Numerator:		
Net income	\$ 898,360	\$ 1,893,739
Less: dividends on preferred shares (1)	--	(27,922)
	\$ 898,360	\$ 1,865,817
Denominator :		
Weighted average common shares outstanding	6,728,095	5,065,327
Dilutive effect of common stock options and warrants	1,099,111	156,114
Conversion of preferred shares (1)	--	--
	7,827,206	5,221,441
	\$ 0.11	\$ 0.36

(1) Preferred shares were anti-dilutive for the three months ended March 31, 2004.

### (6) Segment information

FAS No. 131, Disclosures About Segments of an Enterprise and Related Information, establishes standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. Operating segments are components of an

6

enterprise about which separate financial information is available that is evaluated regularly by chief operating decision makers in deciding how to allocate resources and in assessing performance.

The Company identifies its segments based upon major revenue sources as follows:

For the three months ended March 31, 2005

(in thousands of dollars)



Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

	Sales	Service & Maintenance	Leasing	Corporate	Total
Revenue	\$ 7,146	\$ 464	\$ 3,431	--	\$ 11,04
Cost of Sales	5,622	290	1,208	--	7,12
Gross Margin	\$ 1,524	\$ 174	\$ 2,223	--	\$ 3,92
Operating Expenses	--	--	--	2,084	2,08
Other Income/(Expense)	--	--	--	(411)	(41
Income before Provision for Income Taxes	\$ 1,524	\$ 174	\$ 2,223	\$ (2,495)	\$ 1,42
*Segment Assets	--	--	--	\$ 67,759	\$ 67,75

For the three months ended March 31, 2004 (in thousands of dollars)

	Sales	Service & Maintenance	Leasing	Corporate	Total
Revenue	\$ 890	\$ 424	\$ 2,254	--	\$ 3,56
Cost of Sales	647	336	568	--	1,55
Gross Margin	\$ 243	\$ 88	\$ 1,686	--	\$ 2,01
Operating Expenses	--	--	--	1,192	1,19
Other Income/(Expense)	--	--	--	1,320	1,32
Income before Provision for Income Taxes	\$ 243	\$ 88	\$ 1,686	\$ 128	\$ 2,14
*Segment Assets	--	--	--	\$ 32,786	\$ 32,78

\* Management does not track assets by segment.

Item 2. Management's Discussion and Analysis, or Plan of Operation

Overview

Our company provides products and services to the oil and gas industry and is engaged in (1) the manufacture, service, sale, and rental of natural gas compressors to enhance the productivity of oil and gas wells, and (2) the manufacture, sale and rental of flares and flare ignition systems for plant and production facilities.

Critical Accounting Policies and New Accounting Pronouncements

See our December 31, 2004 Form 10-KSB on file with the SEC for a discussion of our critical accounting policies and new accounting pronouncements. There have been no substantive changes since that time.

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

### Liquidity and Capital Resources

We have funded our operations through public and private offerings of our common and preferred stock, subordinated debt, regular bank debt and cash flow. Proceeds were primarily used to pay debt and to fund the manufacture and fabrication of additional units for our rental fleet of natural gas compressors.

At March 31, 2005, we had cash and cash equivalents of approximately \$1,371,000, working capital of \$4,127,000 and bank debt of \$24,400,000 of which approximately \$5,399,000 was classified as current. We had positive net cash flow from operating activities of approximately \$2,964,000 during the first three months of 2005. This was primarily from net income of \$898,000 plus depreciation and amortization of \$951,000 an increase in deferred taxes of \$528,000, an increase in accounts payable and accrued liabilities of \$830,000, a decrease in accounts receivable-trade of \$1,343,000, and an increase in other asset of \$299,000, offset by an increase in deferred income of \$226,000, and an increase in inventory of \$1,597,000.

For the three months ended March 31, 2005, we invested approximately \$4,668,000 in equipment for our rental fleet and in service vehicles. We financed this activity with bank debt of approximately \$3,685,000 and the remainder from operations.

On January 3, 2005, Natural Gas Services Group, Inc. finalized and funded the Stock Purchase Agreement, with Screw Compression Systems, Inc., or "SCS", and the stockholders of SCS, dated October 18, 2004. Under this agreement, Natural Gas Services Group purchased all of the outstanding shares of capital stock of SCS.

SCS manufactures natural gas compressors, and maintains its principal offices located in Tulsa, Oklahoma.

The stockholders of SCS received, in proportionate shares (based on their stock ownership of SCS), a total of \$16.1 million, consisting of:

- o \$8 million in cash;
- o promissory notes issued by Natural Gas Services in the aggregate principal amount of \$3 million, bearing interest at the rate of four percent (4.00%) per annum, maturing three years from the date of closing and secured by a letter of credit in the face amount of \$2 million; and
- o 609,576 shares of Natural Gas Services common stock valued at \$5.1 million, based on the average of the daily closing prices of the common stock for the ninety consecutive trading days ended April 28, 2004. All of the shares issued are "restricted" securities within the meaning of Rule 144 under the Securities Act of 1933, as amended, and bear a legend to that effect.

On March 14, 2005 we amended our existing loan agreement with Western National Bank to provide additional borrowings of \$10 million for 60 months and interest of 1.0% over the prime rate. This funding will be used to invest in the growth of our rental fleet for the current year. This funding was provided by entering into a Fourth Amended and Restated Loan Agreement made and entered into by and among Natural Gas Services Group, Inc., and Screw Compression Systems, Inc., and Western National Bank.

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

Three months ended March 31, 2005, Compared to the Three months ended March 31, 2004.

Total revenue increased from \$3,568,000 to \$11,041,000 or 209% for the three months ended March 31, 2005 compared to the same period ended March 31, 2004. This was mainly the result of increased leasing income and the addition of revenue from the acquisition of SCS.

Sales revenue from outside sources increased from \$890,000 to \$7,146,000, or 703% for the three months ended March 31, 2005 compared to the same period ended March 31, 2004. Sales from outside sources included: (1) Compressor unit sales, (2) Flare sales, (3) Parts sales and (4) Compressor rebuilds. This increase was mainly the result of the sale of compressor units to outside third parties by SCS in the three months ended March 31, 2005 compared to the same period in 2004. SCS's outside sales were \$6,756,000 for three months ended March 31, 2005.

Service and maintenance revenue increased from \$424,000 to \$464,000, or 9% for the three months ended March 31, 2005 compared to the same period ended March 31, 2004.

Leasing revenue increased from \$2,255,000 to \$3,431,000, or 52% for the three months ended March 31, 2005 compared to the same period ended March 31, 2004. This increase was the result of additional units added to our rental fleet and leased to third parties. The company ended the period with 661 compressor packages in its rental fleet, up from 585 units at December 31, 2004 and 444 units at March 31, 2004.

-----  
Total Revenue Percentage Breakdown for Three months ended March 31,  
2005

Sales Revenue	65%
Service & Maintenance Revenue	4%
Leasing Revenue	31%

The gross margin percentage decreased from 57% for the three months ended March 31, 2004, to 36% for the same period ended March 31, 2005. This decrease resulted mainly from the relative increase in compressor sales revenue as a percentage of the total revenue. Our rental fleet carries a gross margin averaging 65%, and compressor sales margins average 21% therefore the total margins decrease as the lower margin product sales increase.

Selling, general and administrative expense increased from \$666,000 to \$1,133,000 or 70% for the three months ended March 31, 2005, as compared to the same period ended March 31, 2004. This was mainly the result of the increased expenses attributed to the SCS acquisition. The selling, general and administrative expenses for SCS for the quarter amount to 70% of the increase.

Depreciation and amortization expense increased 81% from \$527,000 to \$951,000 for the three months ended March 31, 2005, compared to the same period ended March 31, 2004. This increase was the result of 217 new gas compressor rental units being added to rental equipment from March 31, 2004 to March 31, 2005.

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

Other income and expense decreased approximately \$1,490,000 for the three months ended March 31, 2005, compared to the same period ended March 31, 2004. This decrease was due mainly to the receipt of \$1,500,000 in life insurance payable upon the death of Mr. Wayne L. Vinson, our former President and C.E.O in early 2004. His death on March 15, 2004 left the company as the beneficiary of two life insurance policies, one for \$1,000,000, and one for \$500,000.

Interest expense increased 134% for the three months ended March 31, 2005 compared to the same period ended March 31, 2004, mainly due to increased loan balances financing rental equipment and the loan for acquisition of SCS.

Provision for income tax increased \$276,000 or 110%, because taxable income increased after giving effect to the non taxable life insurance proceeds received in 2004.

### Forward Looking Statements

Some statements contained in this Report, and the documents incorporated by reference, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 (or Securities Act) and Section 21E of the Exchange Act. These statements include, without limitation, statements relating to oil and gas prices, demand for oil and gas, budgets, business strategies and other plans, intentions and objectives of our management for future operations and activities and other such matters. The words "believe", "budget", "plan", "estimate", "expect", "intend", "strategy", "project", "will", "could", "may", "anticipate", "continue", and similar expressions identify forward-looking statements. We believe the assumptions and expectations reflected in these forward-looking statements are reasonable. However, we cannot give any assurance that our expectations will prove to be correct or that we will be able to take any actions that are presently planned. Actual results could differ materially from those expressed in the forward-looking statements. Factors that could cause such a difference include:

- o fluctuations in prices of oil and gas;
- o future capital requirements and availability of financing;
- o competition;
- o general economic conditions;
- o governmental regulations;
- o receipt of amounts owed to us by our customers;
- o events similar to 9/11; and
- o fluctuations in interest rates and availability of capital.

You are cautioned not to place undue reliance on any of our forward-looking statements, which speak only as of the date of the document or in the case of documents incorporated by reference, the date of those documents.

### Item 3. Controls and Procedures

#### (a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

1934) as of the end of the period covered by this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective with respect to timely communicating to them and other members of management responsible for preparing periodic reports all material information required to be disclosed in our periodic filings with the SEC.

(b) Changes in internal controls.

There were no changes in our internal controls during the period covered by this report that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting. In addition, to our knowledge there were no changes in other factors that could significantly affect these controls subsequent to the date of their evaluation.

11

### PART II - OTHER INFORMATION

NATURAL GAS SERVICES GROUP, INC.

#### Item 1. Legal Proceedings

From time to time, we are a party to ordinary routine litigation incidental to our business. We are not currently a party to any pending litigation, and we are not aware of any threatened litigation, except for one claim made by Karifico Consultants in connection with our acquisition of Screw Compression Systems, Inc. As we have previously reported, Karifico Consultants has advised us that a finder's fee in the amount of \$300,000 is owed to Karifico under terms of an agreement dated November 3, 2003 between Karifico and us. However, in reliance on a subsequent verbal amendment of the agreement, we tendered payment in the amount of \$150,000 in full satisfaction of Karifico's claim under the November 3, 2003 agreement. Karifico disputes that its claims have been fully satisfied.

#### Item 6. Exhibits

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

The following exhibits are filed herewith or incorporated herein by reference, as indicated:

Exhibit No. -----	Description -----
2.1	Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc. (Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K dated February 28, 2003 and filed with the Securities and Exchange Commission on March 6, 2003)
3.1	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of the 10QSB filed and dated November 10, 2004)
3.2	Bylaws (Incorporated by reference to Exhibit 3.4 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.1	Form of warrant certificate (Incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.2	Form of warrant agent agreement (Incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.3	Form of lock-up agreement (Incorporated by reference to Exhibit 4.3 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.4	Form of representative's option for the purchase of common stock (Incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
	12
4.5	Form of representative's option for the purchase of warrants (Incorporated by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.6	Stockholders Agreement, dated January 3, 2005 among Paul D. Hensley, Tony Vohjesus, Jim Hazlett and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 4.3 of the Registrant's Form 8-K Report, dated January 3, 2005, as filed with the Securities and Exchange Commission on January 7, 2005)
	Executive Compensation Plans and Arrangements (Exhibits 10.1, 10.24, 10.25 and 10.26)
10.1	1998 Stock Option Plan (Incorporated by reference to Exhibit 10.1 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
10.2	Asset Purchase Agreement, dated January 1, 2001, between the

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

- Registrant and Great Lakes Compression, Inc. (Incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.3 Exhibits 3(c)(1), 3(c)(2), 3(c)(3), 3(c)(4), 13(d)(1), 13(d)(2) and 13(d)(3) to Asset Purchase Agreement, dated January 1, 2001, between the Registrant and Great Lakes Compression, Inc. (Incorporated by reference to Exhibit 10.14 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.4 Amendment to Guaranty Agreement between Natural Gas Services Group, Inc. and Dominion Michigan Production Services, Inc. (Incorporated by reference to Exhibit 10.3 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.5 Form of Series A 10% Subordinated Notes due December 31, 2006 (Incorporated by reference to Exhibit 10.8 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.6 Form of Five-Year Warrants to Purchase Common Stock (Incorporated by reference to Exhibit 10.9 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.7 Warrants issued to Berry-Shino Securities, Inc. (Incorporated by reference to Exhibit 10.10 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.8 Warrants issued to Neidiger, Tucker, Bruner, Inc. (Incorporated by reference to Exhibit 10.11 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.9 Form of warrant issued in March 2001 for guaranteeing debt (Incorporated by reference to Exhibit 10.12 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 13
- 10.10 Form of warrant issued in April 2002 for guaranteeing debt (Incorporated by reference to Exhibit 10.13 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.11 Articles of Organization of Hy-Bon Rotary Compression, L.L.C., dated April 17, 2000 (Incorporated by reference to Exhibit 10.18 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.12 Regulations of Hy-Bon Rotary Compression, L.L.C. (Incorporated by reference to Exhibit 10.19 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.13 First Amended and Restated Loan Agreement between the Registrant and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated March 27, 2003 and filed with the Securities and Exchange Commission on April 14, 2003)

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

- 10.14 Form of Termination of Employment Agreement Letter relating to the Employment Agreement of Alan Kurus (Incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002)
- 10.15 Form of Termination of Employment Agreement Letter relating to the Employment Agreement of Wayne Vinson (Incorporated by reference to Exhibit 10.26 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002)
- 10.16 Form of Termination of Employment Agreement Letter relating to the Employment Agreement of Earl Wait (Incorporated by reference to Exhibit 10.27 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002)
- 10.17 Triple Net Lease Agreement, dated June 1, 2003, between NGE Leasing, Inc. and Steven J. & Katherina L. Winer (Incorporated by reference to Exhibit 10.17 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003)
- 10.18 Lease Agreement, dated June 19, 2003, between NGE Leasing, Inc. and Wise Commercial Properties (Incorporated by reference to Exhibit 10.18 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003)
- 10.19 Lease Agreement, dated March 1, 2004, between the Registrant and the City of Midland, Texas (Incorporated by reference to Exhibit 10.19 of the Registrant's Form 10-QSB for the fiscal quarter ended June 30, 2004)
- 10.20 Second Amended and Restated Loan Agreement, dated November 3, 2003, between the Registrant and Western National Bank (Incorporated by reference to Exhibit 10.20 of the Registrant's Form 10-QSB for the fiscal quarter ended June 30, 2004)
- 14
- 10.21 Securities Purchase Agreement, dated July 20, 2004, between the Registrant and CBarney Investments, Ltd. (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated July 20, 2004 and filed with the Securities and Exchange Commission on July 27, 2004)
- 10.22 Stock Purchase Agreement, dated October 18, 2004, by and among the Registrant, Screw Compression Systems, Inc., Paul D. Hensley, Jim Hazlett and Tony Vohjesus (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated October 18, 2004 and filed with the Securities and Exchange Commission on October 21, 2004)
- 10.23 Fourth Amended and Restated Loan Agreement (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated March 14, 2005 as filed with the Securities and Exchange Commission on March 18, 2005)
- 10.24 Employment Agreement between Paul D. Hensley and Natural Gas



## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

- Services Group, Inc. (Incorporated by reference to Exhibit 10.1 of the Registrants Form 8-K Report, dated January 3, 2005, as filed with the Securities and Exchange Commission on January 7, 2005)
- 10.25 Employment Agreement between William R. Larkin and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.25 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
- 10.26 Promissory Note, dated January 3, 2005, in the original principal amount of \$2,100,000.00 made by Natural Gas Services Group, Inc. payable to Paul D. Hensley (Incorporated by reference to Exhibit 10.26 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
- 10.27 Third Amended and Restated Loan Agreement, dated as of January 3, 2005, among Natural Gas Services Group, Inc., Screw Compression Systems, Inc. and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant's current Report on form 8-K, dated January 3, 2005, and filed with the Securities and Exchange Commission on January 7, 2005)
- 10.28 Modification Agreement, dated as of January 3, 2005, by and between Natural Gas Services Group, Inc. and Western National Bank (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K, dated January 3, 2005, and filed with the Securities and Exchange Commission on January 7, 2005)
- 10.29 Guaranty Agreement, dated as of January 3, 2005, made by Natural Gas Service Group, Inc., for the benefit of Western National Bank (Incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K, dated January 3, 2005, and filed with the Securities and Exchange Commission on January 7, 2005)
- 10.30 Guaranty Agreement, dated as of January 3, 2005, made by Screw Compression Systems, Inc., for the benefit of Western National Bank (Incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K, dated January 3, 2005, and filed with the Securities and Exchange Commission on January 7, 2005)
- 15
- 10.31 Third Amended and Restated Loan Agreement (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K dated January 3, 2005 and filed with the Securities and Exchange Commission January 3, 2005)
- 10.32 First Modification to Fourth Amended and Restated Loan Agreement (Incorporated by reference Exhibit 10.1 of the Registrant's Form 8-K dated May 1, 2005 and filed with Securities and Exchange Commission May 13, 2005)

Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

- 14.0 Code of Ethics (Incorporated by reference to Exhibit 14.0 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
- 21.0 Subsidiaries (Incorporated by reference to Exhibit 21.0 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
- \*31.1 Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
- \*31.2 Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
- \*32.1 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002
- \*32.2 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith.

16

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Stephen Taylor  
-----  
Stephen Taylor  
President and Chief Executive  
Officer

By: /s/ Earl R. Wait  
-----  
Earl R. Wait  
Chief Financial Officer  
And Treasurer

May 16, 2005

INDEX TO EXHIBITS:

Exhibit No. -----	Description -----
2.1	Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc. (Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K dated February 28, 2003 and filed with the Securities and Exchange Commission on March 6, 2003)
3.1	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of the 10QSB filed and dated November 10, 2004)
3.2	Bylaws (Incorporated by reference to Exhibit 3.4 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.1	Form of warrant certificate (Incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.2	Form of warrant agent agreement (Incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.3	Form of lock-up agreement (Incorporated by reference to Exhibit 4.3 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.4	Form of representative's option for the purchase of common stock (Incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

- 4.5 Form of representative's option for the purchase of warrants (Incorporated by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 4.6 Stockholders Agreement, dated January 3, 2005 among Paul D. Hensley, Tony Vohjesus, Jim Hazlett and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 4.3 of the Registrant's Form 8-K Report, dated January 3, 2005, as filed with the Securities and Exchange Commission on January 7, 2005)
- Executive Compensation Plans and Arrangements (Exhibits 10.1, 10.24, 10.25 and 10.26)
- 10.1 1998 Stock Option Plan (Incorporated by reference to Exhibit 10.1 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.2 Asset Purchase Agreement, dated January 1, 2001, between the Registrant and Great Lakes Compression, Inc. (Incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.3 Exhibits 3(c)(1), 3(c)(2), 3(c)(3), 3(c)(4), 13(d)(1), 13(d)(2) and 13(d)(3) to Asset Purchase Agreement, dated January 1, 2001, between the Registrant and Great Lakes Compression, Inc. (Incorporated by reference to Exhibit 10.14 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 18
- 10.4 Amendment to Guaranty Agreement between Natural Gas Services Group, Inc. and Dominion Michigan Production Services, Inc. (Incorporated by reference to Exhibit 10.3 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.5 Form of Series A 10% Subordinated Notes due December 31, 2006 (Incorporated by reference to Exhibit 10.8 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.6 Form of Five-Year Warrants to Purchase Common Stock (Incorporated by reference to Exhibit 10.9 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.7 Warrants issued to Berry-Shino Securities, Inc. (Incorporated by reference to Exhibit 10.10 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.8 Warrants issued to Neidiger, Tucker, Bruner, Inc. (Incorporated by reference to Exhibit 10.11 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.9 Form of warrant issued in March 2001 for guaranteeing debt (Incorporated by reference to Exhibit 10.12 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

- 10.10 Form of warrant issued in April 2002 for guaranteeing debt (Incorporated by reference to Exhibit 10.13 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.11 Articles of Organization of Hy-Bon Rotary Compression, L.L.C., dated April 17, 2000 (Incorporated by reference to Exhibit 10.18 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.12 Regulations of Hy-Bon Rotary Compression, L.L.C. (Incorporated by reference to Exhibit 10.19 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
- 10.13 First Amended and Restated Loan Agreement between the Registrant and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated March 27, 2003 and filed with the Securities and Exchange Commission on April 14, 2003)
- 10.14 Form of Termination of Employment Agreement Letter relating to the Employment Agreement of Alan Kurus (Incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002)
- 10.15 Form of Termination of Employment Agreement Letter relating to the Employment Agreement of Wayne Vinson (Incorporated by reference to Exhibit 10.26 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002)
- 10.16 Form of Termination of Employment Agreement Letter relating to the Employment Agreement of Earl Wait (Incorporated by reference to Exhibit 10.27 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002)
- 10.17 Triple Net Lease Agreement, dated June 1, 2003, between NGE Leasing, Inc. and Steven J. & Katherina L. Winer (Incorporated by reference to Exhibit 10.17 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003)
- 10.18 Lease Agreement, dated June 19, 2003, between NGE Leasing, Inc. and Wise Commercial Properties (Incorporated by reference to Exhibit 10.18 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003)
- 10.19 Lease Agreement, dated March 1, 2004, between the Registrant and the City of Midland, Texas (Incorporated by reference to Exhibit 10.19 of the Registrant's Form 10-QSB for the fiscal quarter ended June 30, 2004)
- 10.20 Second Amended and Restated Loan Agreement, dated November 3, 2003, between the Registrant and Western National Bank (Incorporated by reference to Exhibit 10.20 of the Registrant's Form 10-QSB for the fiscal quarter ended June 30, 2004)

19

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

- 10.21 Securities Purchase Agreement, dated July 20, 2004, between the Registrant and CBarney Investments, Ltd. (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated July 20, 2004 and filed with the Securities and Exchange Commission on July 27, 2004)
- 10.22 Stock Purchase Agreement, dated October 18, 2004, by and among the Registrant, Screw Compression Systems, Inc., Paul D. Hensley, Jim Hazlett and Tony Vohjesus (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated October 18, 2004 and filed with the Securities and Exchange Commission on October 21, 2004)
- 10.23 Fourth Amended and Restated Loan Agreement (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated March 14, 2005 as filed with the Securities and Exchange Commission on March 18, 2005)
- 10.24 Employment Agreement between Paul D. Hensley and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.1 of the Registrants Form 8-K Report, dated January 3, 2005, as filed with the Securities and Exchange Commission on January 7, 2005)
- 10.25 Employment Agreement between William R. Larkin and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.25 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
- 20
- 10.26 Promissory Note, dated January 3, 2005, in the original principal amount of \$2,100,000.00 made by Natural Gas Services Group, Inc. payable to Paul D. Hensley (Incorporated by reference to Exhibit 10.26 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
- 10.27 Third Amended and Restated Loan Agreement, dated as of January 3, 2005, among Natural Gas Services Group, Inc., Screw Compression Systems, Inc. and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant's current Report on form 8-K, dated January 3, 2005, and filed with the Securities and Exchange Commission on January 7, 2005)
- 10.28 Modification Agreement, dated as of January 3, 2005, by and between Natural Gas Services Group, Inc. and Western National Bank (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K, dated January 3, 2005, and filed with the Securities and Exchange Commission on January 7, 2005)
- 10.29 Guaranty Agreement, dated as of January 3, 2005, made by Natural Gas Service Group, Inc., for the benefit of Western National Bank (Incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K, dated January 3,

## Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

2005, and filed with the Securities and Exchange Commission on January 7, 2005)

- 10.30 Guaranty Agreement, dated as of January 3, 2005, made by Screw Compression Systems, Inc., for the benefit of Western National Bank (Incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K, dated January 3, 2005, and filed with the Securities and Exchange Commission on January 7, 2005)
- 10.31 Third Amended and Restated Loan Agreement (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K dated January 3, 2005 and filed with the Securities and Exchange Commission January 3, 2005)
- 10.32 First Modification to Fourth Amended and Restated Loan Agreement (Incorporated by reference Exhibit 10.1 of the Registrant's Form 8-K dated May 1, 2005 and filed with Securities and Exchange Commission May 13, 2005)
- 14.0 Code of Ethics (Incorporated by reference to Exhibit 14.0 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
- 21.0 Subsidiaries (Incorporated by reference to Exhibit 21.0 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)

21

- \*31.1 Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
- \*31.2 Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
- \*32.1 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002
- \*32.2 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002

-----  
\* Filed herewith.