

NATURAL GAS SERVICES GROUP INC

Form S-1/A

February 16, 2006

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As filed with the Securities and Exchange Commission on February 16, 2006

Registration No. 333-130879

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 1
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
NATURAL GAS SERVICES GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)**

**Colorado
(State or Other Jurisdiction
of Incorporation or Organization)**

**3533
(Primary Standard Industrial
Classification Code Number)**

**75-2811855
(I.R.S. Employer
Identification Number)**

**2911 South County Road 1260
Midland, Texas 79706
(432) 563-3974**

**(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal
Executive Offices)**

**Stephen C. Taylor
2911 South County Road 1260
Midland, Texas 79706
(432) 563-3974**

**(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)
*Copy of all communications to:***

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**Charles H. Still, Jr.
Bracewell & Giuliani LLP
711 Louisiana Street, Suite 2300
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(713) 223-2300**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement

for the same offering. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 16, 2006

PROSPECTUS

**2,382,000 Shares
NATURAL GAS SERVICES GROUP, INC.
Common Stock**

We are selling 2,000,000 shares of our common stock and the selling stockholders are selling 382,000 shares of our common stock. We will not receive any proceeds from the sale of our common stock by the selling stockholders.

Our common stock trades on the American Stock Exchange under the symbol NGS. On February 14, 2006, the last sale price reported for our common stock on the American Stock Exchange was \$18.41 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to us before expenses	\$	\$
Proceeds to selling stockholders	\$	\$

We have granted Morgan Keegan & Company, Inc. a 30-day option to purchase up to an aggregate of 357,300 shares of common stock, solely to cover over-allotments, if any.

Morgan Keegan & Company, Inc. expects to deliver the shares of common stock to purchasers on or about , 2006.

MORGAN KEEGAN & COMPANY, INC.
The date of this prospectus is , 2006.

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NATURAL GAS SERVICES GROUP, INC. RENTAL OPERATIONS MAP

**Headquarters District Operations Office Uinta-Piceance Basin Barnett Shale Appalachian Basin
Antrim Shale Raton Basin San Juan Basin Permian Basin South Texas Area Arkoma Basin**

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

Unless the context otherwise requires, references in this prospectus to Natural Gas Services Group, we, us, our ours refer to Natural Gas Services Group, Inc., together with our operating subsidiary. When the context requires, we refer to these entities separately. References in this prospectus to the selling stockholders refer to the selling stockholders identified under Principal and Selling Stockholders. Certain specialized terms used in describing our natural gas compressor business are defined in Glossary of Industry Terms. Unless otherwise indicated, the information in this prospectus assumes that the underwriter does not exercise its over-allotment option.

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PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, including the information under the heading Risk Factors, our consolidated financial statements and the notes to those consolidated financial statements included elsewhere in this prospectus.

The Company

We are a leading provider of small to medium horsepower compression equipment to the natural gas industry. We focus primarily on the non-conventional natural gas production business in the United States (such as coalbed methane, gas shales and tight gas), which, according to data from the Energy Information Administration, is the single largest and fastest growing segment of U.S. gas production. We manufacture, fabricate and rent natural gas compressors that enhance the production of natural gas wells and provide maintenance services for those compressors. In addition, we sell custom fabricated natural gas compressors to meet customer specifications dictated by well pressures, production characteristics and particular applications. We also manufacture and sell flare systems for gas plant and production facilities.

The vast majority of our rental operations are in non-conventional natural gas areas which typically have lower initial reservoir pressures and faster well decline rates. These areas usually require compression to be installed sooner and with greater frequency.

Historically, the majority of our revenue has been derived from our compressor rental business. In January 2005, we acquired Screw Compression Systems, Inc., or SCS, which predominantly focuses on the custom fabrication sales business. By acquiring SCS, we increased our fabrication capacity by over 91,000 square feet. We intend to use this capacity to expand our rental fleet while continuing SCS core business of custom fabrication.

Natural gas compressors are used in a number of applications for the production and enhancement of gas wells and in gas transportation lines and processing plants. Compression equipment is often required to boost a well's production to economically viable levels and enable gas to continue to flow in the pipeline to its destination. We believe that most producing gas wells in North America, at some point, will utilize compression. The World Oil Magazine reported that, as of December 31, 2004, there were approximately 395,000 producing gas wells in the United States. The states of New Mexico, Texas, Michigan, Colorado, Wyoming, Utah, Oklahoma, Pennsylvania, West Virginia and Kansas, our present areas of operation, account for approximately 297,000 of these wells.

We increased our revenue to \$49.3 million in 2005 from \$10.3 million in 2002, the year we completed our initial public offering. During the same period, income from operations increased to \$8.9 million from \$1.8 million. Our compressor rental fleet has grown from 302 compressors at the end of 2002 to 865 compressors at December 31, 2005.

Our Operating Units

Gas Compressor Rental. Our rental business is primarily focused on non-conventional gas production. We provide rental of small to medium horsepower compression equipment to customers via contracts typically having minimum initial terms of six to 24 months. Historically, in our experience, most customers retain the equipment beyond the expiration of the initial term. By outsourcing their compression needs, we believe our customers are able to increase their revenues by producing a higher volume of natural gas due to greater equipment run-time. Outsourcing also allows our customers to reduce their compressor downtime, operating and maintenance costs and capital investments and more efficiently meet their changing compression needs. As of December 31, 2005, approximately 94.8% of our rental fleet was utilized. In 2006, we intend to increase the number of units in our rental fleet by 30% to 40%.

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Engineered Equipment Sales

Compressor fabrication. Fabrication involves the assembly of compressor components manufactured by us or other third parties into compressor units that are ready for rental or sale. In addition to fabricating compressors for our rental fleet, we engineer and fabricate natural gas compressors for sale to customers to meet their specifications based on well pressure, production characteristics and the particular applications for which compression is sought.

Compressor manufacturing. We design and manufacture our own proprietary line of reciprocating compressor frames, cylinders and parts known as our CiP, or Cylinder-in-Plane, product line. We use the finished components to fabricate compressor units for our rental fleet or for sale to third parties. We also sell finished components to other fabricators.

Flare fabrication. We design, fabricate, sell, install and service flare stacks and related ignition and control devices for the onshore and offshore incineration of gas compounds such as hydrogen sulfide, carbon dioxide, natural gas and liquefied petroleum gases. Applications for this equipment are often environmentally and regulatory driven, and we believe we are a leading supplier to this market.

Parts sales and compressor rebuilds. To provide customer support for our compressor and flare sales businesses, we stock varying levels of replacement parts at our Midland, Texas facility and at field service locations. We also provide an exchange and rebuild program for screw compressors and maintain an inventory of new and used compressors to facilitate this part of our business.

Service and Maintenance. We service and maintain compressors owned by our customers on an as needed or contractual basis. Natural gas compressors require routine maintenance and periodic refurbishing to prolong their useful life. Routine maintenance includes physical and visual inspections and other parametric checks that indicate a change in the condition of the compressors. We perform wear-particle analysis on all packages and perform overhauls on a condition-based interval or a time-based schedule. Based on our past experience, these maintenance procedures maximize component life and unit availability and minimize downtime.

Business Strategy

We intend to grow our revenue and profitability by pursuing the following business strategies:

Expand rental fleet. With a portion of the proceeds from this offering and using the additional fabrication capacity gained with the SCS acquisition, we intend to increase our market share by expanding our rental fleet 30% to 40% by the end of 2006. We believe our growth will continue to be primarily driven through our placement of small to medium horsepower wellhead gas compressors for non-conventional gas production, which is the single largest and fastest growing segment of U.S. gas production according to data from the Energy Information Administration. As of December 31, 2005, we had 820 natural gas compressors rented to third parties.

Operational expansion. With the planned increase in our rental fleet, we intend to expand our operations in existing areas, as well as pursue focused expansion into new geographic regions. We have recently entered new markets in Appalachia and the Rocky Mountains.

Expand CiP (Cylinder-in-Plane) product line. The CiP, or Cylinder-in-Plane, is our proprietary reciprocating compressor product line. This product line has allowed us to expand our compressor rentals and sales into higher pressure gas gathering and transmission lines. We intend to establish new distributorship relationships and after-market sales and services networks.

Selectively pursue acquisitions. We intend to evaluate potential acquisitions that would provide us with access to new markets or enhance our current market position.

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Competitive Strengths

We believe we are well positioned to execute our business strategy because of the following competitive strengths: ***Superior customer service.*** Our emphasis on the small to medium horsepower markets has enabled us to effectively meet the evolving needs of our customers. We believe these markets have been under-served by our larger competitors which, coupled with our personalized services and in-depth knowledge of our customers operating needs and growth plans, have allowed us to enhance our relationships with existing customers as well as attract new customers. The size, type and geographic diversity of our rental fleet enables us to provide customers with a range of compression units that can serve a wide variety of applications. We are able to select the correct equipment for the job, rather than the customer trying to fit its application to our equipment.

Diversified product line. Our compressors are available as high and low pressure rotary screw and reciprocating packages. They are designed to meet a number of applications, including wellhead production, natural gas gathering, natural gas transmission, vapor recovery and gas and plunger lift. In addition, our compressors can be built to handle a variety of gas mixtures, including air, nitrogen, carbon dioxide, hydrogen sulfide and hydrocarbon gases. A diversified product line helps us compete by being able to satisfy widely varying pressure, volume and production conditions that customers encounter.

Purpose built rental compressors. Our rental compressor packages have been designed and built to address the primary requirements of our customers in the producing regions in which we operate. Our units are compact in design and are easy, quick and inexpensive to move, install and start-up. Our control systems are technically advanced and allow the operator to start and stop our units remotely and/or in accordance with well conditions. We believe our rental fleet is also one of the newest with an average age of less than three years old.

Experienced management team. On average, our executive and operating management team has over 20 years of oilfield services industry experience. We believe our management team has successfully demonstrated its ability to grow our business both organically and through selective acquisitions.

Broad geographic presence. We presently provide our products and services to a customer base of oil and natural gas exploration and production companies operating in New Mexico, Texas, Michigan, Colorado, Wyoming, Utah, Oklahoma, Pennsylvania, West Virginia and Kansas. Our footprint allows us to service many of the natural gas producing regions in the United States. We believe that operating in diverse geographic regions allows us better utilization of our compressors, minimal incremental expenses, operating synergies, volume-based purchasing, leveraged inventories and cross-trained personnel.

Long-standing customer relationships. We have developed long-standing relationships providing compression equipment to many major and independent oil and natural gas companies. Our customers generally continue to rent our compressors after the expiration of the initial terms of our rental agreements, which we believe reflects their satisfaction with the reliability and performance of our services and products.

Recent Developments

We have included below a summary of our unaudited results of operations and financial condition for the year ended December 31, 2005. This summary should be read in conjunction with our unaudited consolidated financial statements as of and for the year ended December 31, 2005 included elsewhere in

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this prospectus, which financial statements have not been reviewed by our independent auditors, but have been prepared on a basis consistent with our audited consolidated financial statements.

Total revenues for the year ended December 31, 2005 increased 209.0% to \$49.3 million, as compared to \$16.0 million for the year ended December 31, 2004. The increase in revenue reflects the increase in our rental revenue and the addition of revenue from our acquisition of SCS.

Sales revenue increased from \$3.6 million to \$30.3 million, or 742.7%, for the year ended December 31, 2005, compared to the year ended December 31, 2004. The increase is mainly the result of the sale of compressor units to outside third parties by SCS.

Service and maintenance revenue increased from \$1.9 million to \$2.4 million, or 29.3%, for the year ended December 31, 2005, compared to the year ended December 31, 2004. The increase is mainly the result of additional third party labor sales in our New Mexico and Michigan branches.

Rental revenue increased from \$10.5 million to \$16.6 million, or 58.3%, for the year ended December 31, 2005, compared to the year ended December 31, 2004. The increase is mainly the result of units added to our rental fleet and rented to third parties. At December 31, 2005, we had 865 compressor packages in our rental fleet, up from 586 units at December 31, 2004. The average monthly rental rate per unit at December 31, 2005 was \$2,075, as compared to \$1,962 at December 31, 2004.

Net income for the year ended December 31, 2005 increased 33.9% to \$4.4 million (\$.52 per diluted share), as compared to \$3.3 million (\$.52 per diluted share) for the year ended December 31, 2004. Our 2004 net income included life insurance proceeds in the amount of \$1.5 million we received upon the death in March 2004 of our former President and Chief Executive Officer.

At December 31, 2005, current assets were \$24.6 million, which included \$3.3 million of cash. Current liabilities were \$11.2 million, and long-term debt was \$22.2 million. Our stockholders' equity as of December 31, 2005 was \$45.7 million.

Corporate Information

We were incorporated in Colorado on December 17, 1998. We maintain our executive offices at 2911 South County Road 1260, Midland, Texas 79706, and our telephone number is (432) 563-3974. Our website is located at <http://www.ngsgi.com>. The information on or that can be accessed through our website is not part of this prospectus.

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The Offering

Common stock offered by us⁽¹⁾ 2,000,000 shares.

Common stock offered by the selling stockholders 382,000 shares.

Shares outstanding prior to the offering⁽²⁾ 9,031,783 shares as of February 13, 2006.

Shares to be outstanding after the offering⁽¹⁾⁽²⁾ 11,031,783 shares.

Use of proceeds We intend to use the net proceeds from the sale of shares of our common stock by us for capital expenditures, including expansion of our rental fleet, and for debt reduction. We will not receive any proceeds from the sale of shares by the selling stockholders.

American Stock Exchange symbol NGS

Risk factors Please read **Risk Factors** for a discussion of factors you should consider carefully before deciding to invest in shares of our common stock.

(1) Assuming no exercise by the underwriter of its over-allotment option to purchase an additional 357,300 shares of common stock from us.

(2) Excludes 146,668 shares issuable upon the exercise of outstanding stock options and 133,028 shares issuable upon the exercise of outstanding warrants.

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The following summary historical consolidated financial information for each of the years in the three year period ended December 31, 2004, has been derived from our audited consolidated financial statements. The following summary historical consolidated financial information for the year ended December 31, 2005 has been derived from our unaudited consolidated financial statements, which have not been reviewed by our independent auditors, but have been prepared on a basis consistent with our audited consolidated financial statements. The following summary historical consolidated financial information has been derived from our unaudited consolidated financial statements and, in the opinion of our management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The summary pro forma consolidated statement of income and other information for the year ended December 31, 2004 gives effect to our acquisition of SCS, as if the acquisition was consummated on January 1, 2004. This information is only a summary and you should read it in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, which discusses factors affecting the comparability of the information presented, and in conjunction with our financial statements and related notes included elsewhere in this prospectus, including the pro forma financial statements. Results for interim periods may not be indicative of results for full fiscal years.

Year Ended December 31,

	2002	2003	2004	Pro Forma 2004	2005⁽¹⁾
				<i>(unaudited)</i>	<i>(unaudited)</i>
				<i>(in thousands, except per share amounts, compressor units and utilization)</i>	

**CONSOLIDATED STATEMENTS OF
INCOME AND OTHER
INFORMATION:**

Revenues	\$ 10,297	\$ 12,750	\$ 15,958	\$ 37,382	\$ 49,311
Costs of revenues, exclusive of depreciation shown separately below	5,572	6,057	6,951	23,123	31,338
Gross profit	4,725	6,693	9,007	14,259	17,973
Depreciation and amortization	1,166	1,726	2,444	2,772	4,224
Other operating expenses	1,718	2,292	2,652	5,167	4,890
Operating income	1,841	2,675	3,911	6,320	8,859
Total other income (expense) ⁽²⁾	(471)	(671)	603	(39)	(1,798)
Income before income taxes	1,370	2,004	4,514	6,281	7,061
Total income tax expense	584	697	1,140	2,080	2,615
Net income	786	1,307	3,374	4,201	4,446
Preferred dividends	107	121	53	53	
Net income available to common stockholders	\$ 679	\$ 1,186	\$ 3,321	\$ 4,148	\$ 4,446

Net income per common share:

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Basic	\$ 0.19	\$ 0.24	\$ 0.59	\$ 0.67	\$ 0.59
Diluted	\$ 0.16	\$ 0.23	\$ 0.52	\$ 0.59	\$ 0.52
Weighted average shares of common stock outstanding:					
Basic	3,649	4,947	5,591	6,201	7,564
Diluted	4,305	5,253	6,383	6,993	8,481
EBITDA ⁽³⁾	\$ 3,511	\$ 4,397	\$ 7,796	\$ 10,903	\$ 13,282
Total compressor units in rental fleet (end of period)	302	399	586	587	865
Compressor utilization (end of period) ⁽⁴⁾	79.1%	90.7%	95.9%	95.9%	94.8%

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	As of December 31, 2005	
	Actual	As Adjusted⁽⁵⁾
	<i>(unaudited)</i>	
	<i>(in thousands)</i>	
BALANCE SHEET INFORMATION:		
Cash and cash equivalents	\$ 3,271	\$ 32,549
Total assets	86,369	115,647
Long-term debt (including current portion)	28,205	23,205
Stockholders' equity	45,690	79,968

- (1) The information for the periods presented may not be comparable because of our acquisition of SCS in January 2005. For additional information regarding this acquisition, you should read the information under Management's Discussion and Analysis of Financial Condition and Results of Operations and Transactions with Selling Stockholders and Other Related Parties - Acquisition of Screw Compression Systems, Inc. in this prospectus.
- (2) Total other income (expense) for the year ended December 31, 2004 includes \$1.5 million in life insurance proceeds paid to us upon the death of our former Chief Executive Officer.
- (3) EBITDA is a non-GAAP financial measure of earnings (net income) before interest, taxes, depreciation, and amortization. This term, as used and defined by us, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with GAAP. EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP. However, management believes EBITDA is useful to an investor in evaluating our operating performance because:
- it is widely used by investors in the energy industry to measure a company's operating performance without regard to items excluded from the calculation of EBITDA, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired, among other factors;
 - it helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure and asset base from our operating structure; and
 - it is used by our management for various purposes, including as a measure of operating performance, in presentations to our Board of Directors, as a basis for strategic planning and forecasting, and as a component for setting incentive compensation.

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There are material limitations to using EBITDA as a measure of performance, including the inability to analyze the impact of certain recurring items that materially affect our net income or loss, and the lack of comparability of results of operations of different companies. The following table reconciles EBITDA to our net income, the most directly comparable GAAP financial measure:

Year Ended December 31,

	2002	2003	2004	Pro Forma 2004	2005
				<i>(unaudited)</i>	<i>(unaudited)</i>
				<i>(in thousands)</i>	
EBITDA	\$ 3,511	\$ 4,397	\$ 7,796	\$ 10,903	\$ 13,282
Depreciation and amortization	1,166	1,726	2,444	3,071	4,224
Interest expense, net	975	667	838	1,551	1,997
Income taxes	584	697	1,140	2,080	2,615
Net income	\$ 786	\$ 1,307	\$ 3,374	\$ 4,201	\$ 4,446

- (4) Compressor utilization is the percentage of compressors within our rental fleet that are rented to third parties.
- (5) Gives effect to this offering and our receipt of net proceeds of approximately \$34.3 million, based on an assumed offering price of \$18.41 per share, which was the closing price of the common stock on the American Stock Exchange on February 14, 2006, and the use of \$5.0 million of net proceeds for the repayment of debt, as if this offering had been completed on December 31, 2005. Assumes no exercise of the underwriter's over-allotment option. The actual amount of net proceeds we receive may be more or less, depending on the actual public offering price.

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RISK FACTORS

You should carefully consider the following risks before you decide to buy our common stock. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. If this occurs, the trading price of our common stock could decline, and you could lose all or part of the money you paid to buy our common stock. Although the risks described below are the risks that we believe are material, they are not the only risks relating to our industry, our business and our common stock. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or results of operations.

Risks Associated With Our Industry

Decreased oil and natural gas prices and oil and gas industry expenditure levels would adversely affect our revenue.

Our revenue is derived from expenditures in the oil and natural gas industry which, in turn, are based on budgets to explore for, develop and produce oil and natural gas. If these expenditures decline, our revenue will suffer. The industry's willingness to explore for, develop and produce oil and natural gas depends largely upon the prevailing view of future oil and natural gas prices. Prices for oil and gas historically have been, and are likely to continue to be, highly volatile. Many factors affect the supply and demand for oil and natural gas and, therefore, influence oil and natural gas prices, including:

the level of oil and natural gas production;

the level of oil and natural gas inventories;

domestic and worldwide demand for oil and natural gas;

the expected cost of developing new reserves;

the cost of producing oil and natural gas;

the level of drilling and producing activity;

inclement weather;

domestic and worldwide economic activity;

regulatory and other federal and state requirements in the United States;

the ability of the Organization of Petroleum Exporting Countries to set and maintain production levels and prices for oil;

political conditions in or affecting oil and natural gas producing countries;

terrorist activities in the United States and elsewhere;

the cost of developing alternate energy sources;

environmental regulation; and

tax policies.

If the demand for oil and natural gas decreases, then demand for our compressors likely will decrease.

Depending on the market prices of oil and natural gas, companies exploring for oil and natural gas may cancel or curtail their drilling programs, thereby reducing demand for our equipment and services. Our rental contracts are generally short-term, and oil and natural gas companies tend to respond quickly to upward or downward changes in prices. Any reduction in drilling and production activities may materially erode both pricing and utilization rates for our equipment and services and adversely affect our financial results. As a result, we may suffer losses, be unable to make necessary capital expenditures and be unable to meet our financial obligations.

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The intense competition in our industry could result in reduced profitability and loss of market share for us.

In our business segments, we compete with the oil and natural gas industry's largest equipment and service providers who have greater name recognition than we do. These companies also have substantially greater financial resources, larger operations and greater budgets for marketing, research and development than we do. They may be better able to compete because of their broader geographic dispersion, the greater number of compressors in their fleet or their product and service diversity. As a result, we could lose customers and market share to those competitors. These companies may also be better positioned than us to successfully endure downturns in the oil and natural gas industry.

Our operations may be adversely affected if our current competitors or new market entrants introduce new products or services with better prices, features, performance or other competitive characteristics than our products and services. Competitive pressures or other factors also may result in significant price competition that could harm our revenue and our business. Additionally, we may face competition in our efforts to acquire other businesses.

Our industry is highly cyclical, and our results of operations may be volatile.

Our industry is highly cyclical, with periods of high demand and high pricing followed by periods of low demand and low pricing. Periods of low demand intensify the competition in the industry and often result in rental equipment being idle for long periods of time. We may be required to enter into lower rate rental contracts in response to market conditions in the future, and our sales may decrease as a result of such conditions.

Due to the short-term nature of most of our rental contracts, changes in market conditions can quickly affect our business. As a result of the cyclical nature of our industry, our results of operations may be volatile in the future.

We are subject to extensive environmental laws and regulations that could require us to take costly compliance actions that could harm our financial condition.

Our fabrication and maintenance operations are significantly affected by stringent and complex federal, state and local laws and regulations governing the discharge of substances into the environment or otherwise relating to environmental protection. In these operations, we generate and manage hazardous wastes such as solvents, thinner, waste paint, waste oil, washdown wastes, and sandblast material. We attempt to use generally accepted operating and disposal practices and, with respect to acquisitions, will attempt to identify and assess whether there is any environmental risk before completing an acquisition. Based on the nature of the industry, however, hydrocarbons or other wastes may have been disposed of or released on or under properties owned or leased by us or on or under other locations where such wastes have been taken for disposal. The waste on these properties may be subject to federal or state environmental laws that could require us to remove the wastes or remediate sites where they have been released. We could be exposed to liability for cleanup costs, natural resource and other damages as a result of our conduct or the conduct of, or conditions caused by, prior owners, lessees or other third parties. Environmental laws and regulations have changed in the past, and they are likely to change in the future. If existing regulatory requirements or enforcement policies change, we may be required to make significant unanticipated capital and operating expenditures.

Any failure by us to comply with applicable environmental laws and regulations may result in governmental authorities taking actions against our business that could harm our operations and financial condition, including the:

issuance of administrative, civil and criminal penalties;

denial or revocation of permits or other authorizations;

reduction or cessation in operations; and

performance of site investigatory, remedial or other corrective actions.

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Risks Associated With Our Company

We might be unable to employ adequate technical personnel, which could hamper our plans for expansion or increase our costs.

Many of the compressors that we sell or rent are mechanically complex and often must perform in harsh conditions. We believe that our success depends upon our ability to employ and retain a sufficient number of technical personnel who have the ability to design, utilize, enhance and maintain these compressors. Our ability to expand our operations depends in part on our ability to increase our skilled labor force. The demand for skilled workers is high and supply is limited. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force or cause an increase in the wage rates that we must pay or both. If either of these events were to occur, our cost structure could increase and our operations and growth potential could be impaired.

We could be subject to substantial liability claims that could harm our financial condition.

Our products are used in hazardous drilling and production applications where an accident or a failure of a product can cause personal injury, loss of life, damage to property, equipment or the environment, or suspension of operations.

While we maintain insurance coverage, we face the following risks under our insurance coverage:

we may not be able to continue to obtain insurance on commercially reasonable terms;

we may be faced with types of liabilities that will not be covered by our insurance, such as damages from significant product liabilities and from environmental contamination;

the dollar amount of any liabilities may exceed our policy limits; and

we do not maintain coverage against the risk of interruption of our business.

Any claims made under our policy will likely cause our premiums to increase. Any future damages caused by our products or services that are not covered by insurance, are in excess of policy limits or are subject to substantial deductibles, would reduce our earnings and our cash available for operations.

We will require a substantial amount of capital to expand our compressor rental fleet and grow our business.

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