

NATURAL GAS SERVICES GROUP INC
Form 10-Q
May 10, 2011

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

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011

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 registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

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

508 W. Wall St., Ste 550
Midland, Texas 79701
(Address of principal executive offices)
(432) 262-2700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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(Do not check if smaller reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Class	Outstanding at May 9, 2011
Common Stock, \$0.01 par value	12,215,874

Part I - FINANCIAL INFORMATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

NATURAL GAS SERVICES GROUP, INC.
CONDENSED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	December 31, 2010	March 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 19,137	\$ 19,157
Trade accounts receivable, net of allowance for doubtful accounts of \$171 and \$246, respectively	5,279	7,203
Inventory, net of allowance for obsolescence of \$250 and \$499, respectively	21,489	19,827
Prepaid income taxes	2,103	233
Prepaid expenses and other	330	897
Total current assets	48,338	47,317
Rental equipment, net of accumulated depreciation of \$44,245 and \$47,129, respectively	120,755	127,839
Property and equipment, net of accumulated depreciation of \$7,899 and \$7,647, respectively	7,149	6,671
Goodwill, net of accumulated amortization of \$325, both periods	10,039	10,039
Intangibles, net of accumulated amortization of \$1,757 and \$1,802, respectively	2,461	2,416
Other assets	27	27
Total assets	\$ 188,769	\$ 194,309
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Line of credit	\$ 2,000	\$ 2,000
Accounts payable	3,364	3,268
Accrued liabilities	2,151	2,554
Current income tax liability	—	29
Deferred income	389	1,213
Total current liabilities	7,904	9,064
Deferred income tax payable	29,746	31,247
Other long-term liabilities	528	528
Total liabilities	38,178	40,839
Stockholders' Equity:		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—

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Common stock, 30,000 shares authorized, par value \$0.01; 12,148 and 12,179 shares issued and outstanding, respectively	122	122
Additional paid-in capital	86,034	86,415
Retained earnings	64,435	66,933
Total stockholders' equity	150,591	153,470
Total liabilities and stockholders' equity	\$ 188,769	\$ 194,309

See accompanying notes to these unaudited condensed financial statements.

NATURAL GAS SERVICES GROUP, INC.
 INCOME STATEMENTS
 (in thousands, except earnings per share)
 (unaudited)

	Three months ended March 31,	
	2010	2011
Revenue:		
Sales, net	\$ 1,461	\$ 3,877
Rental income	9,876	10,881
Service and maintenance income	212	296
Total revenue	11,549	15,054
Operating costs and expenses:		
Cost of sales, exclusive of depreciation stated separately below	991	2,548
Cost of rentals, exclusive of depreciation stated separately below	3,803	4,362
Cost of service and maintenance, exclusive of depreciation stated separately below	154	137
Selling, general, and administrative expense	1,499	1,386
Depreciation and amortization	2,874	3,292
Total operating costs and expenses	9,321	11,725
Operating income	2,228	3,329
Other income (expense):		
Interest expense	(74)	(9)
Other income (expense)	(23)	708
Total other income (expense)	(97)	699
Income before provision for income taxes	2,131	4,028
Provision for income taxes	(767)	(1,531)
Net income	\$ 1,364	\$ 2,497
Earnings per share:		
Basic	\$ 0.11	\$ 0.21
Diluted	\$ 0.11	\$ 0.20
Weighted average shares outstanding:		
Basic	12,102	12,175
Diluted	12,185	12,285

See accompanying notes to these unaudited condensed financial statements.

NATURAL GAS SERVICES GROUP, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	2010	Three months ended March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,364	\$ 2,497
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,874	3,292
Deferred taxes	210	1,502
Stock options and restricted stock expense	306	183
Gain on disposal of assets	—	(675)
Changes in current assets and liabilities:		
Trade accounts receivables, net	3,534	(1,924)
Inventory, net	754	1,662
Prepaid income taxes and prepaid expenses	(214)	1,302
Accounts payable and accrued liabilities	(1,115)	306
Current income tax liability	557	29
Deferred income	23	825
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,293	8,999
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,383)	(10,129)
Proceeds from sale of property and equipment	—	952
NET CASH USED IN INVESTING ACTIVITIES	(2,383)	(9,177)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from other long-term liabilities, net	(1)	—
Repayments of long-term debt	(845)	—
Repayments of line of credit	(6,500)	—
Proceeds from exercise of stock options	37	198
NET CASH PROVIDED BY FINANCING ACTIVITIES	(7,309)	198
NET CHANGE IN CASH	(1,399)	20
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	23,017	19,137
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 21,618	\$ 19,157
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 100	\$ 10
Income taxes paid	\$ 200	\$ —
NON-CASH TRANSACTIONS		

Transfer of rental equipment to inventory	\$	225	\$	—
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See accompanying notes to these unaudited condensed financial statements.

Notes to Condensed Financial Statements
(unaudited)

(1) Basis of Presentation and Summary of Significant Accounting Policies

These notes apply to the condensed financial statements of Natural Gas Services Group, Inc. (the "Company", "NGSG", "Natural Gas Services Group", "we" or "our") (a Colorado corporation). Natural Gas Services Group, Inc. was formed on December 17, 1998 for the purposes of combining the operations of certain manufacturing, service and leasing entities.

The accompanying unaudited condensed financial statements present the condensed 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, 2011 and the results of our operations for the three months ended March 31, 2010 and 2011 not misleading. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC) the accompanying condensed financial statements do not include all disclosures normally required by generally accepted accounting principles in the United States of America (GAAP). These financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010 on file with the SEC. In our opinion, the condensed 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 months ended March 31, 2011 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2011.

Revenue recognition

Revenue from the sales of custom and fabricated compressors, and flare systems is recognized upon shipment of the equipment to customers or when all conditions have been met or title is transferred to the customer. Exchange and rebuild compressor revenue is recognized when both the replacement compressor has been delivered and the rebuild assessment has been completed. Revenue from compressor services is recognized upon providing services to the customer. Maintenance agreement revenue is recognized as services are rendered. Rental revenue is recognized over the terms of the respective rental agreements based upon the classification of the rental agreement. Deferred income represents payments received before a product is shipped. Revenue from the sale of rental units is included in sales revenue when equipment is shipped or title is transferred to the customer.

Fair Value of Financial Instruments

Our financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable and notes payable. Pursuant to ASC 820 (Accounting Standards Codification), the fair value of our cash equivalents is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. We believe that the recorded values of all of our other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

Recently Issued Accounting Pronouncements

In January 2010, the FASB (Financial Accounting Standards Board) issued authoritative guidance intended to improve disclosures about fair value measurements. The guidance requires entities to disclose significant transfers in and out of fair value hierarchy levels and the reasons for the transfers and to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant

unobservable inputs (Level 3). Additionally, the guidance clarifies that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). This guidance was effective for us on January 1, 2010 except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation; this portion became effective on January 1, 2011. As this guidance provides only disclosure requirements, the adoption of this standard did not impact our results of operations, cash flows or financial position.

In March 2010, the FASB issued authoritative guidance intended to clarify the scope exception related to embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. The guidance addresses how to determine which embedded credit derivative features, including those in collateralized debt obligations and synthetic collateralized debt obligations, are considered to be embedded derivatives that should not be analyzed under Accounting Standards Codification Topic 815, "Derivatives and Hedging" Subtopic 15-25 for potential bifurcation and separate accounting. This guidance is effective for each reporting entity at the beginning of its fiscal quarter beginning after September 15, 2010. We do not have any embedded credit derivative features with respect to our financial instruments; therefore, this standard did not have any impact on our financial statements.

(2) Stock-Based Compensation

Stock Options:

A summary of option activity under our 1998 Stock Option plan for the three months ended March 31, 2011 is presented below.

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, December 31, 2010	423,206	\$ 14.76	7.33	\$ 1,858
Granted	27,000	17.81	8.00	—
Exercised	(18,571)	10.66	—	127
Cancelled/Forfeited	(3,333)	17.51	—	4
Outstanding, March 31, 2011	428,302	\$ 15.12	7.24	\$ 1,348
Exercisable, March 31, 2011	318,302	\$ 14.32	6.72	\$ 1,265

We granted an option to purchase 10,000 shares to our Vice President of Technical Services and 17,000 shares to our non-executive employees on January 24, 2011 at an exercise price of \$17.81 with a three year vesting period.

The following table summarizes information about the stock options outstanding at March 31, 2011:

Range of Exercise Prices	Shares	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 0.01 – 5.58	7,500	2.42	\$ 4.99	7,500	\$ 4.99
5.59 – 9.43	94,239	5.74	8.63	94,239	8.63
9.44 – 15.60	65,000	6.74	12.34	55,000	12.77
15.61 – 20.48	261,563	8.04	18.43	161,563	18.60
\$ 0.01 – 20.48	428,302	7.24	\$ 15.11	318,302	\$ 14.32

The summary of the status of our unvested stock options as of December 31, 2010 and changes during the three months ended March 31, 2011 is presented below.

	Shares	Weighted Average Grant Date Fair Value
Unvested stock options:		
Unvested at December 31, 2010	116,333	\$ 8.18
Granted	27,000	10.14
Vested	(33,333)	8.25
Unvested at March 31, 2011	110,000	\$ 8.65

As of March 31, 2011, there was \$677,788 of unrecognized compensation cost related to unvested options. Such cost is expected to be recognized over a weighted-average period of 1.90 years. Total compensation expense for stock options was \$258,000 and \$111,708 for the three months ended March 31, 2010 and 2011, respectively.

Restricted Stock:

On January 24, 2011, we awarded and issued 5,985 shares of restricted stock to two officers. The restricted stock awarded vests one year from the date of grant. On January 27, 2011, we awarded and issued 20,000 shares of restricted stock to our Chief Executive Officer. The restricted stock vests one year from the date of the grant. Compensation expense related to these restricted stock awards was \$79,400 for the three months ended March 31, 2011. As of March 31, 2011, there was a total of \$368,660 of unrecognized compensation expenses related to these shares of restricted stock. This remaining compensation expense is expected to be recognized over the next ten months.

(3) Inventory

Our inventory, net of allowance for obsolescence of \$250,000 at December 31, 2010 and \$498,680 at March 31, 2011, consisted of the following amounts:

	December 31, 2010	March 31, 2011
	(in thousands)	
Raw materials	\$ 17,770	\$ 16,273
Work in process	3,719	3,554
	\$ 21,489	\$ 19,827

During the three months ended March 31, 2011, there was no write off of obsolete inventory against the allowance for obsolescence.

(4) Credit Facility

Line of Credit

On December 10, 2010, we paid off our existing term loan and line of credit at WNB and established a new \$20 million senior secured revolving credit facility (subject to a right, on an uncommitted basis, to increase the commitments there under up to \$40 million) with JPMorgan Chase Bank, N.A. (the "Credit Agreement").

The Credit Agreement provides us with an aggregate initial commitment amount of \$20 million, subject to collateral availability. The terms of the Credit Agreement also include:

Borrowing Base. At any time before the maturity of the facility, we may draw, repay and re-borrow amounts available under the borrowing base up to the maximum aggregate availability discussed above. Generally, the borrowing base equals the sum of (a) 80% of our eligible accounts receivable plus (b) 50% of the book value of our eligible general inventory (not to exceed 50% of the commitment amount at the time) plus (c) 75% of the book value of our eligible equipment inventory. JPMorgan Chase Bank (the "Lender") may adjust the borrowing base components if material deviations in the collateral are discovered in future audits of the collateral. The borrowing base was \$20 million at March 31, 2011.

Interest and Fees. Under the terms of the Credit Agreement, we have the option of selecting the applicable variable rate for each revolving loan, or portion thereof, of either (a) LIBOR multiplied by the Statutory Reserve Rate (as defined in the Credit Agreement) to which the Lender is subject, with respect to this rate, for Eurocurrency funding, plus the Applicable Margin ("LIBOR-based"), or (b) CB Floating Rate, which is the Lender's Prime Rate less the Applicable Margin; provided, however, that no more than three LIBOR-based borrowings under the facility may be outstanding at any one time. The "Applicable Margin" is based on our leverage ratio (debt-to-EBITDA). For purposes of the LIBOR-based interest rate, the Applicable Margin ranges from 2.25% if our leverage ratio exceeds 2.00x to 1.75% if our leverage ratio is less than 1.00x. For purposes of the CB Floating Rate, the Applicable Margin ranges from 0.50% if our leverage ratio exceeds 2.00x to 1.00% if our leverage ratio is less than 1.00x. The interest rate was 2.019% at March 31, 2011.

Accrued interest is payable monthly on outstanding principal amounts, provided that accrued interest on LIBOR-based loans is payable at the end of each interest period, but in no event less frequently than quarterly. In addition, fees and expenses are payable in connection with our requests for letters of credit (generally equal to the Applicable Margin for LIBOR-related borrowings multiplied by the face amount of the requested letter of credit) and administrative and legal costs.

Maturity. The maturity date of the secured revolving credit facility under the Credit Agreement is December 31, 2011, at which time all amounts borrowed under the facility will be due and outstanding letters of credit must be cash collateralized. The facility may be terminated early upon our request or the occurrence of an event of default.

Security. The obligations under the Credit Agreement are secured by a first priority lien equal to approximately two times the loan commitment as represented by our rental fleet equipment.

Covenants. The Credit Agreement contains customary representations and warranties, as well as covenants which, among other things, limit our ability to incur additional indebtedness and liens; enter into transactions with affiliates; make acquisitions in excess of certain amounts; pay dividends; redeem or repurchase capital stock or senior notes; make investments or loans; make negative pledges; consolidate, merge or effect asset sales; or change the nature of our business.

In addition, we have certain financial covenants that require us to maintain on a consolidated basis a Leverage Ratio less than or equal to 2.50 to 1.00 as of the last day of each fiscal quarter.

Events of Default and Acceleration. The secured revolving credit facility contains customary events of default for credit facilities of this size and type, and includes, without limitation, payment defaults; defaults in performance of covenants or other agreements contained in the transaction documents; inaccuracies in representations and warranties; certain defaults, termination events or similar events; certain defaults with respect to any other Company indebtedness in excess of \$50,000; certain bankruptcy or insolvency events; the rendering of certain judgments in excess of \$150,000; certain ERISA events; certain change in control events and the defectiveness of any liens under the secured revolving credit facility. Obligations under the secured revolving credit facility may be accelerated upon the occurrence of an event of default.

In connection with establishing the credit facility, we paid \$2,816,106 to WNB which represented payment in full of the principal and interest owed under our term loan with WNB. In making this payment, we drew \$2,000,000 on the line of credit under the Credit Agreement described above.

As of March 31, 2011, we were in compliance with all covenants in our respective loan agreements. A default under our bank credit facility could trigger the acceleration of our bank debt so that it is immediately due and payable. Such default would likely limit our ability to access credit.

(5) Other Long-term Liabilities

As of March 31, 2011, we had a long-term liability of \$275,000 to Midland Development Corporation. This amount is to be recognized as income contingent upon certain staffing requirements in the future. In addition, we entered into a purchase agreement with a vendor on July 30, 2008 pursuant to which we agreed to purchase up to \$4.8 million of our paint and coating requirements exclusively from the vendor. In connection with the execution of the agreement, the vendor paid us a \$300,000 fee which is considered to be a discount toward future purchases from the vendor. Based on our historical paint and coating requirements, we estimate meeting the \$4.8 million purchase obligation within five years. The \$300,000 payment we received is recorded as a long-term liability and will decrease as the purchase commitment is fulfilled. The long-term liability remaining as of March 31, 2011 was \$253,000.

(6) Earnings per Share

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

	Three Months Ended March 31, (in thousands, except per share data)	
	2010	2011
Numerator:		
Net income	\$1,364	\$2,497
Denominator for basic net income per common share:		
Weighted average common shares outstanding	12,102	12,175
Denominator for diluted net income per share:		
Weighted average common shares outstanding	12,102	12,175
Dilutive effect of stock options and restricted stock	83	110
Diluted weighted average shares	12,185	12,285
Earnings per common share:		
Basic	\$0.11	\$0.21
Diluted	\$0.11	\$0.20

A total of 117,000 stock options were excluded from the diluted weighted average shares for the three months ended March 31, 2010, as their effect would be anti-dilutive.

(7) Segment Information

FASB ASC 280, Segment Reporting, 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 enterprise about which separate financial information is available that is evaluated regularly by chief operating decision makers in the allocation of resources and the assessment of performance. Our management identifies segments based upon major revenue sources as shown in the tables below. However, management does not track assets by segment.

For the three months ended March 31, 2011 (in thousands):

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	Sales	Rental	Service & Maintenance	Corporate	Total
Revenue	\$ 3,877	\$ 10,881	\$ 296	\$ —	\$ 15,054
Operating costs and expenses	2,548	4,362	137	4,678	11,725
Other income/(expense)	—	—	—	699	699
Income before provision for income taxes	\$ 1,329	\$ 6,519	\$ 159	\$ (3,979)	\$ 4,028

For the three months ended March 31, 2010 (in thousands):

	Sales	Rental	Service & Maintenance	Corporate	Total
Revenue	\$ 1,461	\$ 9,876	\$ 212	\$ —	\$ 11,549
Operating costs and expenses	991	3,803	154	4,373	9,321
Other income/(expense)	—	—	—	(97)	(97)
Income before provision for income taxes	\$ 470	\$ 6,073	\$ 58	\$ (4,470)	\$ 2,131

(8) Legal Proceedings

From time to time, we are a party to various other legal proceedings in the ordinary course of our business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from these actions will not have a material adverse effect on our financial position, results of operations or cash flow. We are not currently a party to any material legal proceedings and we are not aware of any other threatened litigation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis of our financial condition and results of operations are based on, and should be read in conjunction with, our condensed financial statements and the related notes included elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC.

Overview

We fabricate, manufacture, rent and sell natural gas compressors and related equipment. Our primary focus is on the rental of natural gas compressors. Our rental contracts generally provide for initial terms of six to 24 months. After the initial term of our rental contracts, most of our customers have continued to rent our compressors on a month-to-month basis. Rental amounts are paid monthly in advance and include maintenance of the rented compressors. As of March 31 2011, we had 1,339 natural gas compressors totaling 182,326 horsepower rented to 95 third parties compared to 1,199 natural gas compressors totaling 154,175 horsepower rented to 95 third parties at March 31, 2010.

We also fabricate natural gas compressors for sale to our customers, designing compressors to meet unique specifications dictated by well pressures, production characteristics and particular applications for which compression is sought. Fabrication of compressors involves the purchase by us of engines, compressors, coolers and other components, and then assembling these components on skids for delivery to customer locations. The major components of our compressors are acquired through periodic purchase orders placed with third-party suppliers on an "as needed" basis, which presently requires a two to three month lead time with delivery dates scheduled to coincide with our estimated production schedules. Although we do not have formal continuing supply contracts with any major supplier, we believe we have adequate alternative sources available. In the past, we have not experienced any sudden and dramatic increases in the prices of the major components for our compressors. However, the occurrence of such an event could have a material adverse effect on the results of our operations and financial condition, particularly if we were unable to increase our rental rates and sales prices proportionate to any such component price increases.

We also manufacture a proprietary line of compressor frames, cylinders and parts, known as our CiP (Cylinder-in-Plane) product line. We use finished CiP component products in the fabrication of compressor units for sale or rental by us or sell the finished component products to other compressor fabricators. We also design, fabricate, sell, install and service flare stacks and related ignition and control devices for onshore and offshore incineration of gas compounds such as hydrogen sulfide, carbon dioxide, natural gas and liquefied petroleum gases. 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 business.

We provide service and maintenance to our customers under written maintenance contracts or on an as required basis in the absence of a service contract. Maintenance agreements typically have terms of six months to one year and require payment of a monthly fee.

The oil and natural gas equipment rental and services industry is cyclical in nature. The most critical factor in assessing the outlook for the industry is the worldwide supply and demand for natural gas and the corresponding changes in commodity prices. As demand and prices increase, oil and natural gas producers increase their capital expenditures for drilling, development and production activities. Generally, the increased capital expenditures ultimately result in greater revenues and profits for services and equipment companies.

In general, we expect our overall business activity and revenues to track the level of activity in the natural gas industry, with changes in domestic natural gas production and consumption levels and prices more significantly affecting our business than changes in crude oil and condensate production and consumption levels and prices. We also believe that demand for compression services and products is driven by declining reservoir pressure in maturing natural gas producing fields and, more recently, by increased focus by producers on non-conventional natural gas production, such as coalbed methane, gas shales and tight gas, which typically requires more compression than production from conventional natural gas reservoirs.

Demand for our products and services was strong throughout most of 2008, but in 2009 and early 2010 the demand declined due to lower natural gas prices, decreased demand for natural gas and the economic recession. This began to show signs of easing during the later part of 2010 and into the first quarter of 2011.

For fiscal year 2011, our forecasted capital expenditures will be directly dependent upon our customers' compression requirements and are not anticipated to exceed our internally generated cash flows. Any required capital will be for additions to our compressor rental fleet and/or addition or replacement of service vehicles. We believe that cash flows from operations will be sufficient to satisfy our capital and liquidity requirements through 2011. We may require additional capital to fund any unanticipated expenditures, including any acquisitions of other businesses, although that capital may not be available to us when we need it or on acceptable terms.

Notwithstanding the continuing weak economy and financial uncertainty, we believe the long-term trend in our market is favorable. This outlook is supported by the first quarter 2011 growth compared to the same period in 2010.

Results of Operations

Three months ended March 31, 2010, compared to the three months ended March 31, 2011.

The table below shows our revenues and percentage of total revenues of each of our segments for the three months ended March 31, 2010 and March 31, 2011.

	Revenue (in thousands)			
	Three months ended March 31, 2010		Three months ended March 31, 2011	
Sales	\$ 1,461	13%	\$ 3,877	26%
Rental	9,876	85%	10,881	72%
Service and Maintenance	212	2%	296	2%
Total	\$ 11,549		\$ 15,054	

Total revenue increased from \$11.5 million to \$15.1 million, or 30.4%, for the three months ended March 31, 2011, compared to the same period ended March 31, 2010. This was mainly result of increased compressor unit sales and compressor rental revenue. Sales revenue increased 165.4%, rental revenue increased 10.2%, and service and maintenance revenue increased 39.3%.

Sales revenue increased from \$1.5 million to \$3.9 million, or 165.4%, for the three months ended March 31, 2011, compared to the same period ended March 31, 2010. This increase is mainly the result of higher demand for our products due to greater industry activity leading to higher levels of capital expenditures which resulted in more compressor units sold to third parties from our Tulsa operations.

Rental revenue increased from \$9.9 million to \$10.9 million, or 10.2%, for the three months ended March 31, 2011, compared to the same period ended March 31, 2010. This increase is the result of higher oil and natural gas industry drilling and demand for compression. We ended the quarter with 1,978 compressor packages in our rental fleet, up from 1,788 units at March 31, 2010. The rental fleet had a utilization of 67.7% as of March 31, 2011 compared to 67.1% utilization as of March 31, 2010. This slight utilization increase is mainly the result of more compressor rental units in our inventory being matched to customer requirements and being returned to service. We expect when natural gas prices increase we will be able to rent more of the available units.

The overall operating margin percentage increased to 22% for the three months ended March 31, 2011, from 19% for the same period ended March 31, 2010. The higher margin is mainly the result of an increase in total revenue while costs increased at a lower rate. The lower costs were influenced by reductions in the cost of sales related to frames, service and maintenance, and SG&A.

Selling, general, and administrative expense decreased from \$1.5 million to \$1.4 million, or 7.5% for the three months ended March 31, 2011, as compared to the same period ended March 31, 2010. This decrease is mainly due to lower commissions, administrative salaries, and legal fees.

Depreciation and amortization expense increased to \$3.3 million for the three months ended March 31, 2011, compared to \$2.9 million for the same period ended March 31, 2010. This was the result of new gas compressor rental units being added to the rental fleet from March 31, 2010 to March 31, 2011. We added a net of 190 compressors to our rental fleet during the twelve month period.

Other income and expense increased from an expense of \$0.23 million to income of \$0.7 million for the three months ended March 31, 2011, as compared to the same period ended March 31, 2010. This is primarily due to a gain from the sale of our former headquarters facility.

Interest expense decreased 87.5% for the three months ended March 31, 2011, compared to the same period ended March 31, 2010, mainly due to the payoff of our WNB line of credit during 2010 and replacing it with a line of credit with a lower outstanding balance and a lower interest rate.

Provision for income tax increased from \$0.7 million to \$1.5, or 114.3%, and is the result of the increase in taxable income and an increase in effective tax rate. We had an effective tax rate of 38% for the three months ended March 31, 2011 and 36% for same period in 2010.

Liquidity and Capital Resources

Our working capital positions as of December 31, 2010 and March 31, 2011 are set forth below:

	December 31, 2010 (in thousands)	March 31, 2011
Current Assets:		
Cash and cash equivalents	\$ 19,137	\$ 19,157
Trade accounts receivable, net	5,279	7,203
Inventory, net	21,489	19,827
Prepaid income taxes	2,103	233
Prepaid expenses and other	330	897
Total current assets	48,338	47,317
Current Liabilities:		
Line of credit	2,000	2,000
Accounts payable	3,364	3,268
Accrued liabilities	2,151	2,554
Current portion of tax liability	—	29
Deferred income	389	1,213
Total current liabilities	7,904	9,064
Total working capital	\$ 40,434	\$ 38,253

Historically, we have funded our operations through public and private offerings of our equity securities, subordinated debt, bank borrowings and cash flow from operations. Proceeds from these sources were primarily used to pay debt and to fund the manufacture and fabrication of additional units for our rental fleet of natural gas compressors.

For the three months ended March 31, 2011, we invested \$10.1 million in equipment for our rental fleet and service vehicles. Even though we have rental equipment idle we often do not have the specific type of equipment that our customers require, therefore we have to build new equipment to satisfy their needs. We financed this activity with cash flow from operations and cash on hand. During this period we did not make any principal payments on our credit line.

Cash flows

At March 31, 2011, we had cash and cash equivalents of \$19.2 million compared to \$19.1 million at December 31, 2010. Our cash flow from operations of \$9.0 million and proceeds from the exercise of stock options and sales of property, plant, and equipment of \$1.1 million were offset by capital expenditures of \$10.1 million during the three months ended March 31, 2011. We had working capital of \$38.2 million at March 31, 2011 compared to \$40.4 million at December 31, 2010. Both at March 31, 2011 and at December 31, 2010, our total debt was \$2.0 million, all related to our line of credit and classified as current. We had positive net cash flow from operating activities of \$9.0 million during the first three months of 2011 compared to \$8.3 million for the first three months of 2010. The cash flow from operations of \$9.0 million was primarily the result of the net income of \$2.5 million and the non cash items of depreciation and deferred taxes of \$4.8 million, a reduction in accounts receivable of \$1.9 million, an increase in deferred income of \$.8 million and an increase in accounts payable of \$.3 million. We did not have any long-term debt at March 31, 2011 or December 31, 2010.

Recession strategy

For the remainder of the fiscal year 2011, our overall plan, during the uncertain economy, is to continue monitoring expenses in line with the anticipated level of activity, fabricate rental fleet equipment only in direct response to market requirements, emphasize marketing of our idle gas compressor units and limit bank borrowing. Capital expenditures for the year ended December 31, 2011 are not anticipated to exceed our internal cash generating capacity. We believe that cash flows from operations will be sufficient to satisfy our capital and liquidity requirements through 2011. We may require additional capital to fund any unanticipated expenditures, including any acquisitions of other businesses.

Bank Borrowings

On December 10, 2010, we paid off our existing term loan at Western National Bank (“WNB”) and established a new \$20 million senior secured revolving credit facility (subject to a right, on an uncommitted basis, to increase the commitments there under to up to \$40 million) with JPMorgan Chase Bank, N.A. (the “Credit Agreement”).

The Credit Agreement provides us with an aggregate initial commitment amount of \$20 million, subject to collateral availability. The terms of the Credit Agreement also include:

Borrowing Base. At any time before the maturity of the facility, we may draw, repay and re-borrow amounts available under the borrowing base up to the maximum aggregate availability discussed above. Generally, the borrowing base equals the sum of (a) 80% of our eligible accounts receivable plus (b) 50% of the book value of our eligible general inventory (not to exceed 50% of the commitment amount at the time) plus (c) 75% of the book value of our eligible equipment inventory. JPMorgan Chase Bank (the “Lender”) may adjust the borrowing base components if material deviations in the collateral are discovered in future audits of the collateral.

Interest and Fees. Under the terms of the Credit Agreement, we have the option of selecting the applicable variable rate for each revolving loan, or portion thereof, of either (a) LIBOR multiplied by the Statutory Reserve Rate (as defined in the Credit Agreement) to which the Lender is subject, with respect to this rate, for Eurocurrency funding, plus the Applicable Margin (“LIBOR-based”), or (b) CB Floating Rate, which is the Lender’s Prime Rate less the Applicable Margin; provided, however, that no more than three LIBOR-based borrowings under the facility may be outstanding at any one time. The “Applicable Margin” is based on our leverage ratio (debt-to-EBITDA). For purposes of the LIBOR-based interest rate, the Applicable Margin ranges from 2.25% if our leverage ratio exceeds 2.00x to 1.75% if our leverage ratio is less than 1.00x. For purposes of the CB Floating Rate, the Applicable Margin ranges from 0.50% if our leverage ratio exceeds 2.00x to 1.00% if our leverage ratio is less than 1.00x.

Accrued interest is payable monthly on outstanding principal amounts, provided that accrued interest on LIBOR-based loans is payable at the end of each interest period, but in no event less frequently than quarterly. In addition, fees and expenses are payable in connection with our requests for letters of credit (generally equal to the Applicable Margin for LIBOR-related borrowings multiplied by the face amount of the requested letter of credit) and administrative and legal costs.

Maturity. The maturity date of the secured revolving credit facility under the Credit Agreement is December 31, 2011, at which time all amounts borrowed under the facility will be due and outstanding letters of credit must be cash collateralized. The facility may be terminated early upon our request or the occurrence of an event of default.

Security. The obligations under the Credit Agreement are secured by a first priority lien equal to approximately two times the loan commitment as represented by our rental fleet equipment.

Covenants. The Credit Agreement contains customary representations and warranties, as well as covenants which, among other things, limit our ability to incur additional indebtedness and liens; enter into transactions with affiliates; make acquisitions in excess of certain amounts; pay dividends; redeem or repurchase capital stock or senior notes; make investments or loans; make negative pledges; consolidate, merge or effect asset sales; or change the nature of our business.

In addition, we have certain financial covenants that require us to maintain on a consolidated basis a Leverage Ratio less than or equal to 2.50 to 1.00 as of the last day of each fiscal quarter.

Events of Default and Acceleration. The secured revolving credit facility contains customary events of default for credit facilities of this size and type, and includes, without limitation, payment defaults; defaults in performance of covenants or other agreements contained in the transaction documents; inaccuracies in representations and warranties; certain defaults, termination events or similar events; certain defaults with respect to any other Company indebtedness in excess of \$50,000; certain bankruptcy or insolvency events; the rendering of certain judgments in excess of \$150,000; certain ERISA events; certain change in control events and the defectiveness of any liens under the secured revolving credit facility. Obligations under the secured revolving credit facility may be accelerated upon the occurrence of an event of default.

In connection with establishing the credit facility, we paid \$2,816,106 to WNB which represented payment in full of the principal and interest owed under our term loan with WNB. In making this payment, we drew \$2,000,000 on the line of credit under the Credit Agreement described above.

As of March 31, 2011, we were in compliance with all covenants in our respective loan agreements. A default under our bank credit facility could trigger the acceleration of our bank debt so that it is immediately due and payable. Such default would have a material adverse effect on our liquidity, financial position and operations.

Other

As of March 31, 2011, we had a long-term liability of \$275,000 to Midland Development Corporation. This amount is to be recognized as income contingent upon certain staffing requirements in the future. The staffing requirements related to our agreement will remain in effect until April 9, 2016. Failure to comply with the terms of the agreement could result in the repayment of the entire \$275,000 economic stimulus incentive payment. In addition, we entered into a purchase agreement with a vendor on July 30, 2008 pursuant to which we agreed to purchase up to \$4.8 million of our paint and coating requirements exclusively from the vendor. In connection with the execution of the agreement, the vendor paid us a \$300,000 fee which is considered to be a discount toward future purchases from the vendor. Based on our historical paint and coating requirements, we estimate meeting the \$4.8 million purchase obligation within five years. The \$300,000 payment we received is recorded as a long-term liability and will decrease as the purchase commitment is fulfilled. This long-term liability remaining as of March 31, 2011 was \$253,000.

Contractual Obligations and Commitments

We have contractual obligations and commitments that affect the results of operations, financial condition and liquidity. The following table is a summary of our significant cash contractual obligations:

Obligation Due in Period
(in thousands of dollars)

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Cash Contractual Obligations	2011(1)	2012	2013	2014	2015	Thereafter	Total
Line of credit (secured)	\$ 2,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,000
Interest on line of credit(2)	58	—	—	—	—	—	58
Purchase obligations	956	956	956	956	436	—	4,260
Other long-term liabilities	—	—	—	528	—	—	528
Facilities and office leases	309	244	167	17	—	—	737
Total	\$ 3,323	\$ 1,200	\$ 1,123	\$ 1,501	\$ 436	\$ —	\$ 7,583

(1) For the nine months remaining in 2011.

(2) Assumes an interest rate of 4.0%.

Critical Accounting Policies and Practices

A discussion of our critical accounting policies is included in the Company's Form 10-K for the year ended December 31, 2010.

Recently Issued Accounting Pronouncements

In January 2010, the FASB issued authoritative guidance intended to improve disclosures about fair value measurements. The guidance requires entities to disclose significant transfers in and out of fair value hierarchy levels and the reasons for the transfers and to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant unobservable inputs (Level 3). Additionally, the guidance clarifies that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). This guidance was effective for us on January 1, 2010 except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation; this portion became effective on January 1, 2011. As this guidance provides only disclosure requirements, the adoption of this standard did not impact our results of operations, cash flows or financial position.

In March 2010, the FASB issued authoritative guidance intended to clarify the scope exception related to embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. The guidance addresses how to determine which embedded credit derivative features, including those in collateralized debt obligations and synthetic collateralized debt obligations, are considered to be embedded derivatives that should not be analyzed under Accounting Standards Codification Topic 815, "Derivatives and Hedging" Subtopic 15-25 for potential bifurcation and separate accounting. This guidance is effective for each reporting entity at the beginning of its fiscal quarter beginning after September 15, 2010. We do not have any embedded credit derivative features with respect to our financial instruments; therefore, this standard did not have any impact on our financial statements.

Off-Balance Sheet Arrangements

From time-to-time, we enter into off-balance sheet arrangements and transactions that can give rise to off-balance sheet obligations. As of March 31, 2011, the off-balance sheet arrangements and transactions that we have entered into include operating lease agreements and purchase agreements. We do not believe that these arrangements are reasonably likely to materially affect our liquidity, availability of, or requirements for, capital resources.

We entered into a purchase agreement with a vendor on July 30, 2008 pursuant to which we agreed to purchase up to \$4.8 million of our paint and coating requirements exclusively from the vendor. In connection with the execution of the agreement, the vendor paid us a \$300,000 fee which is considered to be a discount toward future purchases from the vendor. Based on our historical paint and coating requirements, we estimate meeting the \$4.8 million purchase obligation within five years. The \$300,000 payment received by the Company is recorded as a long-term liability and will decrease as the purchase commitment is fulfilled. This long-term liability remaining as of March 31, 2011 was \$253,000.

Special Note Regarding Forward-Looking Statements

Except for historical information contained herein, the statements in this report are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which may cause NGS's actual results in future

periods to differ materially from forecasted results. Those risks include, among other things, the loss of market share through competition or otherwise; the introduction of competing technologies by other companies; a prolonged, substantial reduction in oil and natural gas prices which could cause a decline in the demand for NGS's products and services; and new governmental safety, health and environmental regulations which could require NGS to make significant capital expenditures. The forward-looking statements included in this Form 10-Q are only made as of the date of this report, and NGS undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. A discussion of these risk factors is included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Commodity Risk

Our commodity risk exposure is primarily the pricing applicable to natural gas production, and oil to a lesser extent. Realized commodity prices received for such production are primarily driven by the spot prices applicable to natural gas and the prevailing worldwide price for crude oil. 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.

Financial Instruments and Debt Maturities

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, bank borrowings, and notes. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the highly liquid nature of these short-term instruments. The fair value of the bank borrowings approximate the carrying amounts as of March 31, 2011 and were determined based upon interest rates currently available to us.

Customer Credit Risk

We are exposed to the risk of financial non-performance by customers. Our ability to collect on sales to our customers is dependent on the liquidity of our customer base. To manage customer credit risk, we monitor credit ratings of customers. Unless we are able to retain our existing customers, or secure new customers if we lose one or more of our significant customers, our revenue and results of operations would be adversely affected.

Interest Rate Risk

Under the terms of the Credit Agreement, we have the option of selecting the applicable variable rate for each revolving loan, or portion thereof, of either (a) LIBOR multiplied by the Statutory Reserve Rate (as defined in the Credit Agreement) to which the Lender is subject, with respect to this rate, for Eurocurrency funding, plus the Applicable Margin ("LIBOR-based"), or (b) CB Floating Rate, which is the Lender's Prime Rate less the Applicable Margin; provided, however, that no more than three LIBOR-based borrowings under the facility may be outstanding at any one time. The "Applicable Margin" is based on our leverage ratio (debt-to-EBITDA). For purposes of the LIBOR-based interest rate, the Applicable Margin ranges from 2.25% if our leverage ratio exceeds 2.00x to 1.75% if our leverage ratio is less than 1.00x. For purposes of the CB Floating Rate, the Applicable Margin ranges from 0.50% if our leverage ratio exceeds 2.00x to 1.00% if our leverage ratio is less than 1.00x. Consequently, our exposure to interest rates relate primarily to interest earned on short-term investments and paying above market rates, if such rates are below the fixed rate, on our bank borrowings. As of March 31, 2011, we were not using any derivatives to manage interest rate risk.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Principal Accounting Officer and Treasurer, of the effectiveness of the design and of our “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended or, the “Exchange Act”) as of the end of the period covered by this report pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the President and Chief Executive Officer and our Principal Accounting Officer and Treasurer have concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers as appropriate to allow timely decisions regarding required disclosures. Due the inherent limitations of control systems, not all misstatements may be detected. Those inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

(b) Changes in Internal Controls.

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to various other legal proceedings in the ordinary course of our business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from these actions will not have a material adverse effect on our financial position, results of operations or cash flow. We are not currently a party to any legal proceedings and we are not aware of any other threatened litigation.

Item 1A. Risk Factors

Please refer to and read “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 for a discussion of the risk associated with our company and industry.

Item 6. Exhibits

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

Exhibit No.	Description
3.1	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of the 10-QSB 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	Non-Statutory Stock Option Agreement (Incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on August 30, 2005)
4.2	Form of Senior Indenture (Incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed on August 14, 2009)
4.3	Form of Senior Note (Incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed on August 14, 2009)
4.4	Form of Subordinated Indenture (Incorporated by reference to Exhibit 4.3 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed on August 14, 2009)
4.5	Form of Subordinated Note (Incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed on August 14, 2009)
4.6	Form of Deposit Agreement, including Form of Depositary Share (Incorporated by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed on August 14, 2009)
4.7	Form of Warrant Agreement, including Form of Warrant Certificate (Incorporated by reference to Exhibit 4.6 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed on August 14, 2009)
4.8	Form of Unit Agreement (Incorporated by reference to Exhibit 4.7 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed on August 14, 2009)
4.9	Form of Preferred Stock Certificate (Incorporated by reference to Exhibit 4.8 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed on August 14, 2009)
4.10	Form of Certificate of Designation with respect to Preferred Stock (Incorporated by reference to Exhibit 4.9 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed on August 14, 2009)
4.11	Form of Rights Agreement, including Form of Rights Certificate (Incorporated by reference to Exhibit 4.10 of the Registrant's Registration Statement on Form S-3 (No. 333-161346) and filed

- 10.1 Employment Agreement between Natural Gas Services Group, Inc. and Stephen C. Taylor dated October 25, 2008 (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 30, 2008)
- 10.2 Lease Agreement, dated March 26, 2008, between WNB Tower, LTD and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.15 of the Registrant's Form 10-K for the fiscal year ended December 31, 2008 and filed with the Securities and Exchange Commission on March 9, 2009)
- 10.3 2009 Restricted Stock/Unit Plan (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K dated September 18, 2009 and filed with the Securities and Exchange Commission on September 18, 2009.)
- 10.4 1998 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K dated September 18, 2009 and filed with the Securities and Exchange Commission on September 18, 2009.)
- 10.5 Lease Agreement, dated December 11, 2008, between Klement-Wes Partnership, LTD and Natural Gas Services Group, Inc. and commencing on January 1, 2009
- 10.6 Credit Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 10, 2010 (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2011.)
- 10.7 Security Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 10, 2010 (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2011.)
- 10.8 Promissory Note in the aggregate amount of \$20,000,000 issued to JPMorgan Chase Bank, N.A., dated December 10, 2010, in connection with the revolving credit line under the Credit Agreement with JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2011.)
- *31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31.2 Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *32.1

Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*32.2

Certification of Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATURAL GAS SERVICES GROUP, INC.

/s/ Stephen C. Taylor
Stephen C. Taylor
President and Chief Executive
Officer

/s/ G. Larry Lawrence
G. Larry Lawrence
Principal Accounting Officer and
Treasurer

May 10, 2011

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- 10.8 1998 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K dated September 18, 2009 and filed with the Securities and Exchange Commission on September 18, 2009.)
- 10.9 Lease Agreement, dated December 11, 2008, between Klement-Wes Partnership, LTD and Natural Gas Services Group, Inc. and commencing on January 1, 2009
- 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)
- *31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31.2 Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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* Filed herewith.

