

NATURAL GAS SERVICES GROUP INC
Form 10QSB
August 13, 2004

=====

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

FORM 10-QSB

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2004

OR

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

Commission File Number 1-31398

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

Colorado
(State or other jurisdiction of
incorporation or organization)

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

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

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

N/A

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

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

Yes X No
--- ----

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Class	Outstanding at August 4, 2004
----- Common Stock, \$.01 par value	----- 5,961,709

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

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

=====

NATURAL GAS SERVICES GROUP, INC.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Unaudited Consolidated Balance Sheet.....Page 1

Unaudited Consolidated Income Statements.....Page 2

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

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

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

Item 3. Control and Procedures.....Page 11

Item 4. Submission of Matters to a Vote of Security Holders.....Page 12

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.....Page 12

Item 5. Other Information.....Page 12

Item 6. Exhibits and Reports on Form 8-K.....Page 13

Signatures.....Page 16

Natural Gas Services Group, Inc.
Consolidated Balance Sheet
(unaudited)
June 30, 2004

ASSETS

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

Current Assets:	
Cash and cash equivalents	\$ 227,305
Accounts receivable - trade	1,310,624
Inventory	3,503,907
Prepaid expenses	154,908

Total current assets	5,196,744
Lease equipment, net	23,311,862
Other property, plant and equipment, net	3,016,092
Goodwill, net	2,589,655
Patents, net	100,199
Other assets	100,000

Total assets	\$34,314,552
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Current portion of long term debt and capital lease	\$ 2,742,739
Line of Credit	361,377
Accounts payable and accrued liabilities	2,023,323
Unearned Income	13,104

Total current liabilities	5,140,543
Long term debt and capital lease, less current portion	8,672,736
Subordinated notes, net	1,416,821
Deferred income tax payable	2,323,622

Total liabilities	17,553,722
SHAREHOLDERS' EQUITY	
Common stock	54,121
Paid in capital	11,334,452
Retained earnings	5,372,257

Total shareholders' equity	16,760,830

Total liabilities and shareholders' equity	\$34,314,552
	=====

The accompanying notes are an integral part of the consolidated balance sheet

1

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

Three months ended June 30,		Six months ended
-----	-----	-----
2004	2003	2004
-----	-----	-----

Revenue:

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

Sales	\$ 852,255	\$ 939,838	\$ 1,742,220	\$
Service and maintenance income	510,120	516,573	933,722	
Leasing income	2,419,690	1,764,404	4,674,474	
	-----	-----	-----	-----
	3,782,065	3,220,815	7,350,416	
Cost of revenue:				
Cost of sales	601,275	713,624	1,247,669	
Cost of service and maintenance	355,605	335,928	691,855	
Cost of leasing	762,051	406,867	1,330,460	
	-----	-----	-----	-----
	1,718,931	1,456,419	3,269,984	
	-----	-----	-----	-----
Gross Margin	2,063,134	1,764,396	4,080,432	
Operating Cost:				
Selling expense	225,221	185,604	402,610	
General and administrative expense	454,966	410,838	943,225	
Depreciation and amortization	582,349	417,589	1,109,034	
	-----	-----	-----	-----
	1,262,536	1,014,031	2,454,869	
	-----	-----	-----	-----
Operating income	800,598	750,365	1,625,563	
Interest expense	(193,943)	(175,706)	(374,551)	
Other income	(7,057)	(21,760)	1,494,023	
	-----	-----	-----	-----
Income before income taxes	599,598	552,899	2,745,035	
Provision for income tax	233,843	237,747	485,541	
	-----	-----	-----	-----
Net income	365,755	315,152	2,259,494	
Preferred dividends	25,355	31,010	53,277	
	-----	-----	-----	-----
Net income available to common shareholders	\$ 340,400	\$ 284,142	\$ 2,206,217	\$
	=====	=====	=====	=====
Earnings per share:				
Basic	\$0.06	\$0.06	\$0.42	
Diluted	\$0.06	\$0.06	\$0.39	
Weighted average Shares:				
Basic	5,396,527	4,875,324	5,230,927	
Diluted	5,611,115	5,024,774	5,598,747	

The accompanying notes are an integral part of the consolidated income statements.

2

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

Six Months
Ended
June 30, 2004

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

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income	\$ 2,259,495
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	1,109,034
Deferred taxes	481,116
Amortization of debt issuance costs	32,478
Gain on disposal of assets	8,137
Changes in operating assets and liabilities:	
Trade and other receivables	(494,029)
Inventory	(949,668)
Prepaid expenses and other	(47,878)
Accounts payable and accrued liabilities	951,771
Deferred income	(194,111)
Other	(19,746)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,136,599
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(5,651,754)
Acquisition of remaining interest in joint venture, net of cash acquired	--
Proceeds from sale of property and equipment	28,000
Decrease in lease receivable	--
Distribution from equity method investment	--
NET CASH USED IN INVESTING ACTIVITIES	(5,623,754)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net proceeds from bank loans and line of credit	3,995,177
Repayments of long term debt and line of credit	(1,533,092)
Proceeds from exercised warrants and stock options	129,450
Dividends paid on preferred stock	(53,277)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,538,258
NET CHANGE IN CASH AND CASH EQUIVALENTS	51,103
CASH AT BEGINNING OF PERIOD	176,202
CASH AT END OF PERIOD	\$ 227,305
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	\$ 374,551

The accompanying notes are an integral part of the consolidated statements of cash flows.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited financial statements present the consolidated results of our company taken from our books and records. In our opinion, such information includes all adjustments, consisting of only normal recurring adjustments, which are necessary to make our financial position at June 30, 2004 and the results of our operations for the six month periods ended June 30, 2004 and 2003 not misleading. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC) the accompanying financial statements do not include all disclosures normally required by accounting principles generally accepted in United States of America. These financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2003 on file with the SEC. In our opinion, the consolidated financial statements are a fair presentation of the financial position, results of operations and cash flows for the periods presented.

The results of operations for the six months ended June 30, 2004 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2004.

(2) Stock-based Compensation

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

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

	Three Months Ended June 30		Six Months June 30	
	2004	2003	2004	
Pro forma impact of fair value method				
Income applicable to common shares, as reported	\$ 340,401	\$ 284,142	\$ 2,206,218	\$
Pro-forma stock-based compensation costs under the fair value method, net of related tax	(10,000)	(7,683)	(20,000)	
Pro-forma income applicable to common shares under the fair-value method	\$ 330,401	\$ 276,459	\$ 2,186,218	\$
Earnings per common share				
Basic earnings per share reported	\$0.06	\$0.06	\$0.42	
Diluted earnings per share reported	\$0.06	\$0.06	\$0.39	
Pro-forma basic earnings per share under the fair value method	\$0.06	\$0.06	\$0.42	
Pro-forma diluted earnings per share under the fair value method	\$0.06	\$0.05	\$0.39	

Weighted average Black-Scholes fair value assumptions:

Risk free rate	4.0%-5.2%
Expected life	5-10 yrs
Expected volatility	50.0%
Expected dividend yield	0.0%

(3) Merger

On January 1, 2004, we merged our subsidiaries, Rotary Gas Systems Inc, NGE Leasing Inc, and Great Lakes Compression Inc. with the parent Company, Natural Gas Services Group Inc. This had no effect on our consolidated financial position or results of operations, with the exception of a small impact on our state tax expenses.

(4) Preferred Stock Conversion

In accordance with the provisions of the Convertible Series A Preferred Stock of Natural Gas Services Group, Inc., on March 26, 2004 each share of Preferred Stock automatically converted to one share of Common Stock. The conversion occurred after the closing market price of the stock was equal to or higher than \$6.50 for 20 consecutive trading days. 315,154 Preferred shares were converted at that time. Dividends payable at the conversion date were approximately \$25,355.

(5) Common Stock Private Placement

On July 20, 2004, Natural Gas Services Group, Inc. and CBarney Investments, Ltd. entered into a Securities Purchase Agreement. Under this agreement, Natural Gas Services Group issued and sold 649,574 shares of its common stock to CBarney at \$7.69736 per share. The per share price was determined by multiplying (x) \$8.747, the average closing market price of the common stock on the American Stock Exchange for the twenty consecutive trading days ended July 15, 2004, times (y) eighty-eight percent. Natural Gas Services Group received aggregate gross proceeds of \$5,000,000.

We plan to use the net proceeds from the sale of the stock to advance the growth of our rental fleet of natural gas compressors, working capital and general corporate purposes, including possible acquisition of strategically located compressor companies.

(6) Earnings per common share

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

	Three Months Ended June 30,		Six Months End June 30,	
	2004	2003	2004	
Basic earnings per share Numerator:				
Net income	\$ 365,756	\$ 315,152	\$ 2,259,4925	\$
Less: dividends on preferred shares	(25,355)	(31,010)	(53,277)	

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

Net income available to common shareholders	\$ 340,401	\$ 284,142	\$ 2,206,218	\$
			5	
Denominator -				
Weighted average common shares outstanding	5,396,527	4,875,324	5,230,927	4,
Basic earnings per share	\$ 0.06	\$ 0.06	\$ 0.42	\$
Diluted earnings per share				
Numerator:				
Net income	\$ 365,756	\$ 315,152	\$ 2,259,495	\$
Less: dividends on preferred shares (1)	(25,355)	(31,010)	(53,277)	
Net income available to common shareholders	\$ 340,401	\$ 284,142	\$ 2,206,218	\$
Denominator :				
Weighted average common shares outstanding	5,396,527	4,875,324	5,230,927	4,
Dilutive effect of common stock options and warrants	214,588	149,450	367,820	
	5,611,115	5,024,774	5,598,747	5,
Diluted earnings per share	\$ 0.06	\$ 0.06	\$ 0.39	\$

(1) Preferred shares were anti-dilutive for the three and six months ended June 30, 2004 and 2003

(7) Other Income

On March 15, 2004 the President and C.E.O. of our company, Mr. Wayne L. Vinson, passed away after a battle with cancer. The Company held 2 life insurance policies on him, 1 for \$1,000,000 and 1 for \$500,000, with the Company as the beneficiary. The proceeds of \$1,500,000 were recorded as other income.

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

Overview

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

Critical Accounting Policies and New Accounting Pronouncements

See our December 31, 2003 Form 10-KSB on file with the SEC for a discussion of our critical accounting policies and new accounting pronouncements. There have been no substantive changes since that time.

Liquidity and Capital Resources

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

At June 30, 2004, we had cash and cash equivalents of approximately \$227,300, working capital of \$56,200 and non-subordinated debt of \$11,415,000 of which approximately \$2,742,000 was classified as current. We had positive net cash flow from operating activities of approximately \$3,136,600 during the first six months of 2004. This was primarily from net income of \$2,259,000 plus depreciation and amortization of \$1,109,000 an increase in deferred taxes of \$481,000, an increase in accounts payable and accrued liabilities of \$952,000, offset by an increase in accounts receivable-trade of \$494,000, a decrease in deferred income of \$194,000, and an increase in inventory of \$950,000.

On November 24, 2003 we completed a new \$10 million senior credit facility with a \$7 million initial borrowing base. The credit facility is a Multiple Advance Term Promissory Note arranged by Western National Bank, Midland, Texas. The interest rate is one percent over Wall Street prime rate. Funds have been drawn under this line as of June 30, 2004 totaling \$3,615,000.

Our line of credit for \$750,000 with interest at 1% over prime for one year expired March 15, 2004 but was renewed on May 28, 2004. Funds have been drawn under the line of credit as of June 30, 2004 totaling \$361,000.

In accordance with the provisions of the Convertible Series A Preferred Stock of Natural Gas Services Group, Inc., on March 26, 2004 each share of Preferred Stock automatically converted to one share of Common Stock. The conversion occurred after the closing market price of the stock was equal to or higher than \$6.50 for 20 consecutive trading days. 315,154 Preferred shares were converted at that time. As a result the conversion we will have a reduction in expected dividend payments of approximately \$68,000 for the remainder of the year 2004.

On July 20, 2004, Natural Gas Services Group, Inc. and CBarney

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

Investments, Ltd. entered into a Securities Purchase Agreement. Under this agreement, Natural Gas Services Group agreed to issue and sell 649,574 shares of its common stock to CBarney at \$7.69736 per share. The per share price was determined by multiplying (x) \$8.747, the average closing market price of the common stock on the American Stock Exchange for the twenty consecutive trading days ended July 15, 2004, times (y) eighty-eight percent. Natural Gas Services Group will receive aggregate gross proceeds of \$5,000,000. We plan to use the net proceeds from the sale of the stock to advance the growth of our rental fleet of natural gas compressors, working capital and general corporate purposes, including possible acquisition of strategically located compressor companies.

7

Results of Operations

Six Months Ended June 30, 2004, Compared to the Six Months Ended June 30, 2003.

Sales revenue from outside sources increased from \$1,505,000 to \$1,742,000, or 16% for the six months ended June 30, 2004 compared to the same period ended June 30, 2003. This increase was mainly the result of an improvement in the sale of compressors and flare units compared to the same period in 2003. Because our products are custom-built, fluctuations in revenue from outside sources is not unusual.

Service and maintenance revenue increased from \$894,000 to \$934,000, or 4% for the six months ended June 30, 2004 compared to the same period ended June 30, 2003.

Leasing revenue increased from \$3,166,000 to \$4,674,000, or 48% for the six months ended June 30, 2004 compared to the same period ended June 30, 2003. This increase was the result of additional units added to our rental fleet and leased to third parties. The company ended the period with 488 compressor packages in its rental fleet, up from 399 units at December 31, 2003 and 354 units at June 30, 2003.

8

The gross margin percentage increased from 54% for the six months ended June 30, 2003, to 56% for the same period ended June 30, 2004. This improvement resulted mainly from the relative increase in leasing revenue as a percentage of the total revenue. Our rental fleet carries a gross margin averaging 70%, and increases in rented units improves our gross margin.

Selling, general and administrative expense increased from \$1,116,000 to \$1,346,000 or 21% for the six months ended June 30, 2004, as compared to the same period ended June 30, 2003. This was mainly the result of the increase in commissions from additional leasing contracts on gas compressors to third parties and legal expenses related to an internal investigation concerning an employee matter that was settled in April 2004.

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

Depreciation and amortization expense increased 42% from \$780,000 to \$1,109,000 for the six months ended June 30, 2004, compared to the same period ended June 30, 2003. This increase was the result of 134 new gas compressor rental units being added to rental equipment from June 30, 2003 to June 30, 2004.

Other income and expense increased approximately \$1,493,000 for the six months ended June 30, 2004 compared to the same period ended June 30, 2003. This increase was due mainly from the receipt of \$1,500,000 in life insurance payable on Mr. Wayne L. Vinson, our former President and C.E.O. His death on March 15, 2004 left the company as the beneficiary of two life insurance policies, one for \$1,000,000, and one for \$500,000.

Interest expense increased 14% for the six months ended June 30, 2004 compared to the same period ended June 30, 2003, mainly due to the increased loan balances on vehicles and rental equipment.

Provision for income tax increased \$164,000 or 51%, primarily due to the increase in net taxable income. The income from the life insurance proceeds described above is not subject to federal income tax.

9

Three Months Ended June 30, 2004, Compared to the Three Months Ended June 30, 2003.

Sales revenue from outside sources decreased from \$940,000 to \$852,000, or 9% for the three months ended June 30, 2004 compared to the same period ended June 30, 2003. This decrease was mainly the result of a reduction in the sales of compressor units and parts. Because our products are custom-built, fluctuations in compressor unit revenue from outside sources is not unusual. The reduction in parts sales is the result of a change in our discount status with a major supplier in Northern Michigan. We expect this to be a temporary situation.

Service and maintenance revenue decreased from \$517,000 to \$510,000, or 1% for the three months ended June 30, 2004 compared to the same period ended June 30, 2003. This revenue source is subject to seasonable change and we expect this to increase in the third quarter of 2004.

Leasing revenue increased from \$1,764,000 to \$2,420,000, or 37% for the three months ended June 30, 2004 compared to the same period ended June 30, 2003. This increase was the result of additional units added to our rental unit fleet and leased to third parties. The company added 44 gas compressors to its rental fleet in the quarter ended June 30, 2004.

The gross margin percentage remained stable at 55% for the three months ended June 30, 2003 and also for the same period ended June 30, 2004. Although we expect our margins to increase as our rental revenue increases because our rental fleet carries a gross margin averaging 70%, changes in the product mix during the quarter help to average out the gross margin company wide.

10

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

Selling, general and administrative expense increased from \$596,000 to \$680,000 or 14% for the three months ended June 30, 2004, as compared to the same period ended June 30, 2003. This was mainly the result of the increase in commissions from additional leasing contracts on gas compressors to third parties and an increase in sales and administration salary expense.

Depreciation and amortization expense increased 39% from \$418,000 to \$582,000 for the three months ended June 30, 2004, compared to the same period ended June 30, 2003. This increase was the result of 44 new gas compressor rental units being added to rental equipment during the three months ended June 30, 2004.

There was a slight increase in interest expense for the three months ended June 30, 2004 compared to the same period ended June 30, 2003, was mainly due to the increase in loan balances for rental equipment.

Provision for income tax decreased \$4,000, or 2%, primarily due from a change in our effective tax rate. The effective tax rate changed because of a reduction in our state taxes as a result the merger of our subsidiaries effective January 1, 2004.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in timely alerting them to the material information relating to us that are required to be included in our periodic filings with the SEC.

11

(b) Changes in internal controls.

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

PART II - OTHER INFORMATION

NATURAL GAS SERVICES GROUP, INC.

Item 1. Legal Proceedings

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

From time to time, we are a party to ordinary routine litigation incidental to our business. We are not currently a party to any pending litigation, and we are not aware of any threatened litigation.

Item 4. Submission of Matters to a Vote of Security Holders

On June 15, 2004, we held our Annual Meeting of Shareholders. At the Annual Meeting of Shareholders, Richard L. Yadon was elected for a term expiring at the Annual Meeting of Shareholders to be held in 2007 and Wallace C. Sparkman and William F. Hughes, Jr. were elected for a term expiring at the Annual Meeting of Shareholders to be held in 2006. The terms of Charles G. Curtis, Wallace O. Sellers and Gene A. Strasheim as directors continued after the Annual Meeting of Shareholders until the Annual Meetings of Shareholders to be held in 2005.

Voting for Richard L. Yadon

For:	5,120,796	Withheld:	9,420	Abstentions:	0
----		-----		-----	

Voting for Wallace C. Sparkman

For:	5,120,796	Withheld:	9,420	Abstentions:	0
----		-----		-----	

Voting for William F. Hughes, Jr.

For:	5,124,696	Withheld:	5,520	Abstentions:	0
----		-----		-----	

Item 5. Other Information

The Nominating Committee of our Board of Directors will consider a candidate for director proposed by a stockholder. A candidate must be highly qualified in terms of business experience and be both willing and expressly interested in serving on the Board. A stockholder wishing to propose a candidate for the Committee's consideration should forward the candidate's name and information about the candidate's qualifications to Natural Gas Services Group, Inc., Nominating Committee, 2911 South County Road 1260, Midland, Texas 79706,

12

Attn.: Charles G. Curtis, Chairman. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment history for at least the past five years indicating employer's names and description of the employer's business, educational background and any other biographical information that would assist the Committee in determining the qualifications of the individual. The Committee will consider recommendations received by a date not later than 120 calendar days before the date our proxy statement is released to shareholders in connection with the prior year's annual meeting for nomination at that annual meeting. The Committee will consider nominations received beyond that date at the annual meeting subsequent to the next annual meeting.

The Committee evaluates nominees for directors recommended by stockholders in the same manner in which it evaluates other nominees for

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

directors. Minimum qualifications include the factors discussed above.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description -----
2.1	Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc.(2)
3.1	Articles of incorporation.(3)
3.2	Amendment to articles of incorporation dated March 31, 1999, and filed on May 25, 1999.(3)
3.3	Amendment to articles of incorporation dated July 25, 2001, and filed on July 30, 2001.(3)
3.4	Amendment to articles of incorporation dated June 18, 2003, and filed on June 19, 2003.(3)
3.5	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging NGE Leasing, Inc into Natural Gas Services Group, Inc.(6)
3.6	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Rotary Gas Systems, Inc. into Natural Gas Services Group, Inc.(6)
3.7	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Great Lakes Compression, Inc. into Natural Gas Services Group, Inc.(6)
3.8	Bylaws.(3)
4.1	Form of warrant certificate.(3)
4.2	Form of warrant agent agreement.(3)
4.3	Form of lock-up agreement.(3)
4.4	Form of representative's option for the purchase of common stock.(3)
4.5	Form of representative's option for the purchase of warrants.(3)
10.1	1998 Stock Option Plan.(3)

13

Exhibit No. -----	Description -----
10.2	Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)

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

- 10.3 Amendment to Guaranty Agreement between Natural Gas Services Group, Inc. and Dominion Michigan Production Services, Inc.(3)
- 10.4 Form of Series A 10% Subordinated Notes due December 31, 2006.(3)
- 10.5 Form of Five-Year Warrants to Purchase Common Stock.(3)
- 10.6 Warrants issued to Berry-Shino Securities, Inc.(3)
- 10.7 Warrants issued to Neidiger, Tucker, Bruner, Inc.(3)
- 10.8 Form of warrant issued in March 2001 for guaranteeing debt.(3)
- 10.9 Form of warrant issued in April 2002 for guaranteeing debt.(3)
- 10.10 Exhibits 3(c)(1), 3(c)(2), 3(c)(3), 3(1)(4), 13(d)(1), 13(d)(2) and 13(d)(3) to Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)
- 10.11 Articles of Organization of Hy-Bon Rotary Compression, L.L.C. dated April 17, 2000 and filed on April 20, 2001.(3)
- 10.12 Regulations of Hy-Bon Rotary Compression, L.L.C.(3)
- 10.13 First Amended and Restated Loan Agreement between Natural Gas Services Group, Inc. and Western National Bank(4)
- 10.14 Termination of Employment Agreement Letter relating to the Employment Agreement of Alan Kurus(5)
- 10.15 Termination of Employment Agreement Letter relating to the Employment Agreement of Wayne Vinson(5)
- 10.16 Termination of Employment Agreement Letter relating to the Employment Agreement of Earl R. Wait(5)
- 10.17 Lease Agreement dated June 1, 2003 with Steven J. & Katherina L. Winer(6)
- 10.18 Lease Agreement dated June 19, 2003 with Wise Commercial Properties(6)
- 10.19 Lease Agreement dated April 1, 2004 with the City of Midland (1)
- 10.20 Second Amended and Restated Loan Agreement, dated November 3, 2003, between Natural Gas Services Group, Inc. and Western National Bank (1)
- 10.21 Securities Purchase Agreement between the Registrant and CBarney Investments (7)
- 31.1 Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
- 31.2 Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)

Exhibit No. -----	Description -----
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)
32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)

(1)	Filed herewith.
(2)	Exhibit 2.1 is incorporated by reference to Exhibit 2.1 filed as an exhibit to our Current Report on Form 8-K dated February 28, 2003
(3)	Exhibits 3.1 through 3.4 and 3.8 through 10.12 are incorporated by reference to the exhibits filed as exhibits to our Registration Statement No. 333-88314
(4)	Exhibit 10.13 is incorporated by reference to our Current Report on Form 8-K filed on April 14, 2003
(5)	Exhibits 10.14, 10.15 and 10.16 are incorporated by reference to exhibits 10.25, 10.26 and 10.27 to our Annual Report on Form 10-KSB for the year ended December 31, 2002
(6)	Exhibits 3.5, 3.6, 10.17, and 10.18 are incorporated by reference to the same exhibits filed with our Annual Report on Form 10-KSB for the year ended December 31, 2003.
(7)	Exhibit 10.21 is incorporated by reference to the same Exhibit 4.1 to our Current Report on Form 8-K dated July 27, 2004.
(b)	Reports on Form 8-K On April 4, 2004, under Item 5 of Form 8-K, we announced the automatic conversion of our outstanding 10% Convertible Series A Preferred Stock into 315,154 shares of our common stock.

SIGNATURES

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

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

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace Sparkman

Wallace Sparkman
President and Chief Executive
Officer

By: /s/ Earl R. Wait

Earl R. Wait
Chief Financial Officer
And Treasurer

August 11, 2004

16

INDEX TO EXHIBITS:

Exhibit No. -----	Description -----
2.1	Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc.(2)
3.1	Articles of incorporation.(3)
3.2	Amendment to articles of incorporation dated March 31, 1999, and filed on May 25, 1999.(3)
3.3	Amendment to articles of incorporation dated July 25, 2001, and filed on July 30, 2001.(3)
3.4	Amendment to articles of incorporation dated June 18, 2003, and filed on June 19, 2003.(3)
3.5	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging NGE Leasing, Inc into Natural Gas Services Group, Inc.(6)
3.6	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Rotary Gas Systems, Inc.

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

	into Natural Gas Services Group, Inc.(6)
3.7	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Great Lakes Compression, Inc. into Natural Gas Services Group, Inc.(6)
3.8	Bylaws.(3)
4.1	Form of warrant certificate.(3)
4.2	Form of warrant agent agreement.(3)
4.3	Form of lock-up agreement.(3)
4.4	Form of representative's option for the purchase of common stock.(3)
4.5	Form of representative's option for the purchase of warrants.(3)
10.1	1998 Stock Option Plan.(3)
10.2	Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)
10.3	Amendment to Guaranty Agreement between Natural Gas Services Group, Inc. and Dominion Michigan Production Services, Inc.(3)
10.4	Form of Series A 10% Subordinated Notes due December 31, 2006.(3)
10.5	Form of Five-Year Warrants to Purchase Common Stock.(3)
10.6	Warrants issued to Berry-Shino Securities, Inc.(3)
10.7	Warrants issued to Neidiger, Tucker, Bruner, Inc.(3)
10.8	Form of warrant issued in March 2001 for guaranteeing debt.(3)
10.9	Form of warrant issued in April 2002 for guaranteeing debt.(3)

17

Exhibit No. -----	Description -----
10.10	Exhibits 3(c)(1), 3(c)(2), 3(c)(3), 3(1)(4), 13(d)(1), 13(d)(2) and 13(d)(3) to Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)
10.11	Articles of Organization of Hy-Bon Rotary Compression, L.L.C. dated April 17, 2000 and filed on April 20, 2001.(3)
10.12	Regulations of Hy-Bon Rotary Compression, L.L.C.(3)

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

- 10.13 First Amended and Restated Loan Agreement between Natural Gas Services Group, Inc. and Western National Bank(4)
- 10.14 Termination of Employment Agreement Letter relating to the Employment Agreement of Alan Kurus(5)
- 10.15 Termination of Employment Agreement Letter relating to the Employment Agreement of Wayne Vinson(5)
- 10.16 Termination of Employment Agreement Letter relating to the Employment Agreement of Earl R. Wait(5)
- 10.17 Lease Agreement dated June 1, 2003 with Steven J. & Katherina L. Winer(6)
- 10.18 Lease Agreement dated June 19, 2003 with Wise Commercial Properties(6)
- 10.19 Lease Agreement dated April 1, 2004 with the City of Midland (1)
- 10.20 Second Amended and Restated Loan Agreement, dated November 3, 2003, between Natural Gas Services Group, Inc. and Western National Bank (1)
- 10.21 Securities Purchase Agreement between the Registrant and CBarney Investments (7)
- 31.1 Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
- 31.2 Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
- 32.1 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)
- 32.2 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)

18

-
- (1) Filed herewith.
- (2) Exhibit 2.1 is incorporated by reference to Exhibit 2.1 filed as an exhibit to our Current Report on Form 8-K dated February 28, 2003
- (3) Exhibits 3.1 through 3.4 and 3.8 through 10.12 are incorporated by reference to the exhibits filed as exhibits to our Registration Statement No. 333-88314
- (4) Exhibit 10.13 is incorporated by reference to our Current Report on Form 8-K filed on April 14, 2003
- (5) Exhibits 10.14, 10.15 and 10.16 are incorporated by reference to exhibits 10.25, 10.26 and 10.27 to our Annual

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

Report on Form 10-KSB for the year ended December 31, 2002

- (6) Exhibits 3.5, 3.6, 10.17, and 10.18 are incorporated by reference to the same exhibits filed with our Annual Report on Form 10-KSB for the year ended December 31, 2003.
- (7) Exhibit 10.21 is incorporated by reference to the same Exhibit 4.1 to our Current Report on Form 8-K dated July 27, 2004.