

NATURAL GAS SERVICES GROUP INC
Form 10-Q
November 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
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)
508 W. Wall St., Ste 550
Midland, Texas 79701
(Address of principal executive offices)
(432) 262-2700
(Registrant's telephone number, including area code)

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

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
(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	November 3, 2014
Common Stock, \$0.01 par value	12,519,405

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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)

	September 30, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$5,073	\$24,443
Trade accounts receivable, net of allowance for doubtful accounts of \$497 and \$436, respectively	9,512	6,750
Inventory, net	31,350	26,832
Prepaid income taxes	5,110	2,281
Prepaid expenses and other	734	339
Total current assets	51,779	60,645
Rental equipment, net of accumulated depreciation of \$100,981 and \$86,533, respectively	207,098	176,420
Property and equipment, net of accumulated depreciation of \$10,466 and \$9,692 respectively	7,319	7,429
Goodwill	10,039	10,039
Intangibles, net of accumulated amortization of \$2,285 and \$2,191, respectively	1,933	2,027
Other assets	40	29
Total assets	\$278,208	\$256,589
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Line of credit	\$417	\$577
Accounts payable	5,662	3,904
Accrued liabilities	7,714	6,487
Current income tax liability	5,226	350
Deferred income	2,013	873
Total current liabilities	21,032	12,191
Deferred income tax liability	51,238	51,464
Other long-term liabilities	164	197
Total liabilities	72,434	63,852
Commitments and contingencies (Note 7)		
Stockholders' Equity:		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, 30,000 shares authorized, par value \$0.01; 12,464 and 12,366 shares issued and outstanding, respectively	125	123
Additional paid-in capital	94,255	91,344
Retained earnings	111,394	101,270
Total stockholders' equity	205,774	192,737
Total liabilities and stockholders' equity	\$278,208	\$256,589

See accompanying notes to these unaudited condensed financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue:				
Rental income	\$20,177	\$17,805	\$58,431	\$50,533
Sales, net	5,218	3,893	10,831	15,057
Service and maintenance income	204	167	611	516
Total revenue	25,599	21,865	69,873	66,106
Operating costs and expenses:				
Cost of rentals, exclusive of depreciation stated separately below	8,110	7,449	23,815	20,519
Cost of sales, exclusive of depreciation stated separately below	3,493	2,454	6,826	8,935
Cost of service and maintenance, exclusive of depreciation and amortization stated separately below	101	80	269	233
Selling, general, and administrative expense	2,527	2,142	7,860	6,023
Depreciation and amortization	5,528	4,652	15,816	13,326
Total operating costs and expenses	19,759	16,777	54,586	49,036
Operating income	5,840	5,088	15,287	17,070
Other income (expense):				
Interest expense	(4	) (3	) (9	) (45
Other income	131	125	183	393
Total other income, net	127	122	174	348
Income before provision for income taxes	5,967	5,210	15,461	17,418
Provision for income taxes	2,084	1,816	5,337	6,185
Net income	\$3,883	\$3,394	\$10,124	\$11,233
Earnings per share:				
Basic	\$0.31	\$0.28	\$0.81	\$0.91
Diluted	\$0.30	\$0.27	\$0.80	\$0.90
Weighted average shares outstanding:				
Basic	12,461	12,339	12,424	12,313
Diluted	12,740	12,600	12,728	12,504

See accompanying notes to these unaudited condensed financial statements.

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

	Nine months ended September 30,		
	2014	2013	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$10,124	\$11,233	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,816	13,326	
Deferred income taxes	(226)	) 5,736	
Stock based compensation	2,438	1,134	
Inventory allowance	395	13	
Gain on disposal of assets	(159)) —	
Gain on extinguishment of liability	—	(223))
Changes in current assets and liabilities:			
Trade accounts receivables	(2,762)	) 1,314	
Inventory	(4,895)	) (1,049))
Prepaid expenses	(3,024)	) (1,937))
Accounts payable and accrued liabilities	2,785	(735))
Current income tax liability	5,290	409	
Deferred income	1,140	(824))
Other	(11)) —	
Tax benefit from equity compensation	(414)) —	
NET CASH PROVIDED BY OPERATING ACTIVITIES	26,497	28,397	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(46,388)	) (29,175))
Proceeds from sale of property and equipment	239	—	
NET CASH USED IN INVESTING ACTIVITIES	(46,149)	(29,175))
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments from other long-term liabilities, net	(33)	) (73))
Repayments of line of credit	(160)	) (150))
Proceeds from exercise of stock options	61	642	
Tax benefit from equity compensation	414	—	
NET CASH PROVIDED BY FINANCING ACTIVITIES	282	419	
NET CHANGE IN CASH AND CASH EQUIVALENTS	(19,370)	(359))
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	24,443	28,086	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$5,073	\$27,727	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	\$9	\$45	
Income taxes paid	\$4,968	\$2,036	
NON-CASH TRANSACTIONS			
Transfer of rental equipment to inventory	\$53	\$207	

See accompanying notes to these unaudited condensed financial statements.

Natural Gas Services Group, Inc.
Notes to Condensed Financial Statements
(unaudited)

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

These notes apply to the unaudited condensed financial statements of Natural Gas Services Group, Inc. a Colorado corporation (the "Company", "NGSG", "Natural Gas Services Group", "we" or "our").

The accompanying unaudited condensed financial statements include all adjustments, consisting of only normal recurring adjustments, which are necessary to make our financial position at September 30, 2014 and the results of our operations for the three and nine months ended September 30, 2014 and 2013 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, 2013 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 and nine months ended September 30, 2014 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2014.

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 and 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 our line of credit. 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 fair values because of their nature and relatively short maturity dates or durations.

Recently Issued Accounting Pronouncements

On May 28, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), as part of a joint project with the International Accounting Standards Board (IASB) to clarify revenue-recognizing principles and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU No. 2014-09 finalizes Proposed ASU Nos. 1820-100, 2011-230 and 2011-250 and is expected, among other things, to remove inconsistencies and weaknesses in revenue requirements and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. In

particular, the amendments in this ASU will be added to the FASB Accounting Standards Codification (FASB ASC) as Topic 606, Revenue from Contracts with Customers, and will supersede the revenue recognition requirements in FASB ASC 605, Revenue Recognition, as well as some cost guidance in FASB ASC Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the guidance provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. For public entities, the amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is prohibited. Additionally, an entity should apply the amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect

of initially applying this ASU recognized at the date of initial application. If an entity elects the latter, transition method, then it must also provide the additional disclosures in reporting periods that include the date of initial application of (1) the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and (2) an explanation of the reasons for significant changes. The new standard will be effective during our first quarter ending March 31, 2017. We are currently evaluating the new standard to determine which reporting option allows us to report the most meaningful information and are still evaluating the potential impact this new standard may have on our financial statements.

(2) Stock-Based Compensation

Stock Options:

A summary of option activity under our 1998 Stock Option Plan as of December 31, 2013, and changes during the nine months ended September 30, 2014 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, 2013	378,852	\$ 15.61	5.23	\$4,533
Granted	55,000	30.68	—	—
Exercised	(3,500)	) 17.13	—	48
Canceled/Forfeited	(2,083)	) 18.15	—	24
Outstanding, September 30, 2014	428,269	\$ 17.52	5.10	\$3,170
Exercisable, September 30, 2014	340,435	\$ 15.34	4.08	\$2,973

The following table summarizes information about our stock options outstanding at September 30, 2014:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$0.01-9.43	71,352	2.22	\$8.72	71,352	\$8.72
\$9.44-15.60	70,000	4.31	12.51	64,166	12.30
\$15.61-33.36	286,917	6.01	20.93	204,917	18.59
	428,269	5.10	\$17.52	340,435	\$15.34

The summary of the status of our unvested stock options as of December 31, 2013 and changes during the nine months ended September 30, 2014 is presented below.

	Shares	Weighted Average Grant Date Fair Value
Unvested stock options:		
Unvested at December 31, 2013	63,082	\$9.87
Granted	55,000	16.91
Vested	(28,915)	) 9.80
Canceled/Forfeited	(1,333)	) 9.92
Unvested at September 30, 2014	87,834	\$14.30

As of September 30, 2014, there was \$873,283 of unrecognized compensation cost related to unvested options. Such cost is expected to be recognized over a weighted-average period of 2.2 years. Total compensation expense for stock options was \$297,522 and \$122,702 for the nine months ended September 30, 2014 and 2013, respectively.

Restricted Stock:

In accordance with the Company's employment agreement with Stephen Taylor, the Company's Chief Executive Officer, the Compensation Committee reviewed his performance in determining the issuance of restricted common stock. Based on this review which included consideration of the Company's 2013 performance, Mr. Taylor, was awarded 49,420 restricted shares on January 23, 2014, which vest one year from the date of grant. On March 20, 2014, the Compensation Committee awarded 15,000 shares of restricted common stock to each of G. Larry Lawrence, our CFO, and James Hazlett our Vice President of Technical Services, subject to the approval at our June 2014 annual meeting of shareholders of a proposal to increase the number of shares reserved for issuance under our 2009 restricted Stock\Unit Plan. As the proposal was approved by shareholders at the 2014 annual meeting, we issued the restricted shares to Messrs. Hazlett and Lawrence which vest one year from the grant date. We also awarded and issued 13,152 shares of restricted common stock to our Board of Directors as partial payment for 2014 Directors' fees. The restricted stock issued to our Directors vests over one year, in quarterly installments, beginning March 31, 2015. Total compensation expense related to restricted stock awards was \$2,140,233 and \$1,011,727 for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, there was a total of \$1,282,724 of unrecognized compensation expenses related to these shares which is expected to be recognized over the next fifteen months.

(3) Inventory

Our inventory, net of allowance for obsolescence of \$523,000 and \$128,000 at September 30, 2014 and December 31, 2013, respectively, consisted of the following amounts:

	September 30, 2014	December 31, 2013
	(in thousands)	
Raw materials	\$ 23,700	\$ 20,524
Work in process	7,650	6,308
	\$ 31,350	\$ 26,832

During the nine months ended September 30, 2014 and 2013, there were no write offs of obsolete inventory against the allowance for obsolescence.

(4) Credit Facility

We have a senior secured revolving credit agreement with JP Morgan Chase Bank, N.A (the "Amended Credit Agreement") aggregate commitment \$30 million, subject to collateral availability. We also have a right to request from the lender, on an uncommitted basis, an increase of up to \$20 million on the aggregate commitment (which could potentially increase the commitment amount to \$50 million).

Borrowing Base. At any time before the maturity of the Amended Credit Agreement, 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. We had \$29.5 million borrowing base availability at September 30, 2014 under the terms of our Amended Credit Agreement.

Interest and Fees. Under the terms of the Amended 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 Amended Credit Agreement), 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 agreement may be outstanding at any one time. For purposes of the LIBOR-based interest rate, the Applicable Margin is 1.25%. For purposes of the CB Floating Rate, the Applicable Margin is 1.50%. For the nine month period ended September 30, 2014, our weighted average interest rate was 1.40%.

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 Amended Credit Agreement is December 31, 2014, at which time all amounts borrowed under the agreement will be due and outstanding letters of credit must be cash collateralized. The agreement may be terminated early upon our request or the occurrence of an event of default.

Security. The obligations under the Amended Credit Agreement are secured by a first priority lien on all of our inventory and accounts and leases receivables, along with a first priority lien on a variable number of our leased compressor equipment the book value of which must be maintained at a minimum of 2.00 to 1.00 commitment coverage ratio (such ratio being equal to (i) the amount of the borrowing base as of such date to (ii) the amount of the commitment as of such date.)

Covenants. The Amended 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 also 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 Amended Credit Agreement 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 loan 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 Amended Credit Agreement may be accelerated upon the occurrence of an event of default.

As of September 30, 2014, we were in compliance with all covenants in our Amended Credit Agreement. A default under our Credit Agreement 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 other credit. At September 30, 2014 and December 31, 2013, our outstanding balance on the line of credit was \$417,000 and \$577,000, respectively.

(5) Earnings per Share

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation(in thousands, except per share data).

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Numerator:				
Net income	\$3,883	\$3,394	\$10,124	\$11,233
Denominator for basic net income per common share:				
Weighted average common shares outstanding	12,461	12,339	12,424	12,313
Denominator for diluted net income per share:				
Weighted average common shares outstanding	12,461	12,339	12,424	12,313

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Dilutive effect of stock options and restricted stock	279	261	304	191
Diluted weighted average shares	12,740	12,600	12,728	12,504
Earnings per common share:				
Basic	\$0.31	\$0.28	\$0.81	\$0.91
Diluted	\$0.30	\$0.27	\$0.80	\$0.90

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(6) Segment Information

ASC 280-10-50, "Operating Segments", defines the characteristics of an operating segment as a) being engaged in business activity from which it may earn revenue and incur expenses, b) being reviewed by the company's chief operating decision maker (CODM) for decisions about resources to be allocated and to assess its performance and c) having discrete financial information. Although we indeed look at our product lines to analyze the nature of our revenue, other financial information, such as certain costs and expenses, net income and EBITDA are not captured or analyzed by these categories. Therefore discrete financial information is not available by product line and our CODM does not make resource allocation decisions or assess the performance of the business based on these categories, but rather in the aggregate. Based on this, Management believes that it operates in one business segment.

In their analysis of product lines as potential operating segments, Management also considered ASC 280-10-50-11, "Aggregation Criteria", which allows for the aggregation of operating segments if the segments have similar economic characteristics and if the segments are similar in each of the following areas:

- The nature of the products and services;
- The nature of the production processes;
- The type or class of customer for their products and services;
- The methods used to distribute their products or provide their services; and
- The nature of the regulatory environment, if applicable.

We are engaged in the business of designing and manufacturing compressors and flares. Our compressors and flares are sold and rented to our customers. In addition, we provide service and maintenance on compressors in our fleet and to third parties. These business activities are similar in all geographic areas. Our manufacturing process is essentially the same for the entire Company and is performed in-house at our facilities in Midland, Texas and Tulsa, Oklahoma. Our customers primarily consist of entities in the business of producing natural gas and crude oil. The maintenance and service of our products is consistent across the entire Company and is performed via an internal fleet of vehicles. The regulatory environment is similar in every jurisdiction in that the most impacting regulations and practices are the result of federal energy policy. In addition, the economic characteristics of each customer arrangement are similar in that we maintain policies at the corporate level.

For the three months ended September 30, 2014 (in thousands):

	Rental	Sales	Service & Maintenance	Corporate	Total
Revenue	\$20,177	\$5,218	\$204	\$—	\$25,599
Operating costs and expenses	8,110	3,493	101	8,055	19,759
Other income, net	—	—	—	127	127
Income before provision for income taxes	\$12,067	\$1,725	\$103	\$(7,928)	\$5,967

For the three months ended September 30, 2013 (in thousands):

Rental	Sales	Service & Maintenance	Corporate	Total
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Revenue	\$17,805	\$3,893	\$167	\$—	\$21,865
Operating costs and expenses	7,449	2,454	80	6,794	16,777
Other income, net	—	—	—	122	122
Income before provision for income taxes	\$10,356	\$1,439	\$87	\$(6,672)	\$5,210

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For the nine months ended September 30, 2014 (in thousands):

	Rental	Sales	Service & Maintenance	Corporate	Total
Revenue	\$58,431	\$10,831	\$611	—	\$69,873
Operating costs and expenses	23,815	6,826	269	23,676	54,586
Other income, net	—	—	—	174	174
Income before provision for income taxes	\$34,616	\$4,005	\$342	\$(23,502)	\$15,461

For the nine months ended September, 2013 (in thousands):

	Rental	Sales	Service & Maintenance	Corporate	Total
Revenue	\$50,533	\$15,057	\$516	\$—	\$66,106
Operating costs and expenses	20,519	8,935	233	19,349	49,036
Other income, net	—	—	—	348	348
Income before provision for income taxes	\$30,014	\$6,122	\$283	\$(19,001)	\$17,418

(7) Commitments and Contingencies

From time to time, we are a party to various 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 material 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, 2013 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 billed monthly in advance and include maintenance of the rented compressors. As of September 30, 2014, we had 2,162 natural gas compressors totaling 298,764 horsepower rented to 98 third parties compared to 1,986 natural gas compressors totaling 277,073 horsepower rented to 101 third parties at September 30, 2013.

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 our purchase of engines, compressors, coolers and other components, and our assembling of 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 crude oil 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. However, we have increased our rental and sales in the non-conventional shale plays which are more dependent on crude oil 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 have been historically strong, 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 latter part of 2010 and through 2013. However, natural gas prices have had only slight movements up followed by downward movements. Meanwhile, opportunities have developed in non-conventional shale plays. While shale plays continued to offer opportunities, natural gas prices have not surged, leaving demand for compression in conventional areas uncertain.

Natural gas prices continue at levels that do not encourage energy companies to invest capital in natural gas projects. In addition, the domestic economy has not fully recovered. Notwithstanding the continuing uncertain economy and financial markets, we believe the long-term trend in our market is favorable. We believe this outlook is supported by the growth in our revenue in 2012, 2013 and our continued stable results in the first nine months of 2014.

Results of Operations

Three months ended September 30, 2014, compared to the three months ended September 30, 2013.

The table below shows our revenues and percentage of total revenues of each of our product lines for the three months ended September 30, 2014 and 2013.

	Revenue Three months ended September 30, (in thousands)					
	2014			2013		
Rental	\$20,177	79	%	\$17,805	81	%
Sales	5,218	20	%	3,893	18	%
Service and Maintenance	204	1	%	167	1	%
Total	\$25,599			\$21,865		

Total revenue increased to \$25.6 million from \$21.9 million, or 17%, for the three months ended September 30, 2014, compared to the same period ended September 30, 2013. The \$3.7 million increase in revenue was due to an increase in rental revenue of \$2.4 million and an increase in sales revenue of \$1.3 million. Comparing the three months ended September 30, 2014 to the same period in 2013, rental revenue increased 13% and sales revenue increased 34%.

Rental revenue increased to \$20.2 million from \$17.8 million for the three months ended September 30, 2014, compared to the same period ended September 30, 2013. This increase is the result of higher oil and natural gas industry drilling and demand for low to mid horsepower compression. We ended the quarter with 2,842 compressor packages in our rental fleet, up from 2,466 units at September 30, 2013. The rental fleet had a utilization of 76.1% as of September 30, 2014 compared to 80.5% utilization as of September 30, 2013. This drop in utilization is mainly the result of compressor rental units being returned in older, dry gas areas. We continue to increase the number of compressors rented in non-conventional areas. In the event that natural gas prices increase, we should see additional utilization of our fleet due to a possible leveling of returns related to dry gas.

Sales revenue increased to \$5.2 million from \$3.9 million for the three months ended September 30, 2014, compared to the same period ended September 30, 2013. This increase is the result of timing of industry activity related to the completion of capital projects. We believe this timing is reflective of the typical sales cycle, resulting in inconsistent compressor units sales to third parties from our Tulsa and Midland operations. There was also an increase in demand for flares during this comparative period.

Our overall operating income increased \$760,000 to \$5.8 million from \$5.1 million with the margin percentage remaining steady at 23% for the three months ended September 30, 2014 and September 30, 2013. The operating margin remained steady due to higher sales during the quarter.

Selling, general, and administrative expense increased to \$2.5 million from \$2.1 million, for the three months ended September 30, 2014, as compared to the same period ended September 30, 2013, due to increases in equity compensation expense.

Depreciation and amortization expense increased to \$5.5 million for the three months ended September 30, 2014, compared to \$4.7 million for the period ended September 30, 2013. This was the result of new gas compressor rental units being added to the rental fleet from September 30, 2013 to September 30, 2014. We added a net of 110 compressors to our rental fleet during the three month period ending September 30, 2014.

Provision for income tax was \$2.1 million and \$1.8 million for the three months ended September 30, 2014 and September 30, 2013, respectively. The provision is the result of an increase in taxable income for the three months ended September 30, 2014 compared to the three months ended September 30, 2013 and in addition we experienced a slightly lower effective tax rate.

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Nine months ended September 30, 2014, compared to the nine months ended September 30, 2013.

The table below shows our revenues and percentage of total revenues of each of our product lines for the nine months ended September 30, 2014 and 2013.

	Revenue					
	Nine months ended September 30, (in thousands)					
	2014			2013		
Rental	\$58,431	84	%	\$50,533	76	%
Sales	10,831	15	%	15,057	23	%
Service and Maintenance	611	1	%	516	1	%
Total	\$69,873			\$66,106		

Total revenue increased to \$69.9 million from \$66.1 million, or 5.7%, for the nine months ended September 30, 2014, compared to the same period ended September 30, 2013. Comparing the nine months ended September 30, 2014 to the same period in 2013, rental revenue increased 16% and sales revenue decreased 28%.

Rental revenue increased to \$58.4 million from \$50.5 million for the nine months ended September 30, 2014, compared to the same period ended September 30, 2013. This increase is the result of higher oil and natural gas industry drilling and demand for low to mid horsepower compression. We ended the quarter with 2,842 compressor packages in our rental fleet, up from 2,466 units at September 30, 2013. The rental fleet had a utilization of 76.1% as of September 30, 2014 compared to 80.5% utilization as of September 30, 2013. This utilization decrease is mainly results from compressor returns in the in the older, dry gas areas. We continue to increase the number of compressors rented in non-conventional areas. In the event that natural gas prices increase, we should see incremental utilization of our fleet.

Sales revenue decreased to \$10.8 million from \$15.1 million for the nine months ended September 30, 2014, compared to the same period ended September 30, 2013. This decrease is the result of timing of industry activity related to capital projects. We believe this timing is reflective of the typical sales cycle, resulting in inconsistent compressor units sales to third parties from our Tulsa and Midland operations. There was also a slight decrease in demand for flares during this comparative period.

Our overall operating income decreased \$1.8 million to \$15.3 million from \$17.1 million with the margin percentage decreasing to 22% from 26% for the nine months ended September 30, 2014 compared to the same period ended September 30, 2013. The operating margin decrease is mainly the result of depreciation associated with additions to our rentals fleet and, to a lesser extent, increases in administrative expenses.

Selling, general, and administrative expense increased to \$7.9 million from \$6.0 million, for the nine months ended September 30, 2014, as compared to the same period ended September 30, 2013, due to increases in equity compensation expense.

Depreciation and amortization expense increased to \$15.8 million for the nine months ended September 30, 2014, compared to \$13.3 million for the period ended September 30, 2013. This was the result of new gas compressor rental units being added to the rental fleet from September 30, 2013 to September 30, 2014. We added a net of 377 compressors to our rental fleet during the twelve month period ending September 30, 2014.

Provision for income tax decreased to \$5.3 million from \$6.2 million, or 14.0%, and is the result of the decrease in taxable income and a change in effective tax rate between the two periods. We had an effective tax rate of 34.5% in

the nine months ended September 30, 2014 and 35.5% in the nine months ended September 2013.

Liquidity and Capital Resources

Our working capital positions as of September 30, 2014 and December 31, 2013 are set forth below:

	September 30, 2014	December 31, 2013
	(in thousands)	
Current Assets:		
Cash and cash equivalents	\$5,073	\$24,443
Trade accounts receivable, net	9,512	6,750
Inventory, net	31,350	26,832
Prepaid income taxes	5,110	2,281
Prepaid expenses and other	734	339
Total current assets	51,779	60,645
Current Liabilities:		
Line of credit	417	577
Accounts payable	5,662	3,904
Accrued liabilities	7,714	6,487
Current portion of tax liability	5,226	350
Deferred income	2,013	873
Total current liabilities	21,032	12,191
Total working capital	\$30,747	\$48,454

For the nine months ended September 30, 2014, we invested \$46.4 million in equipment for our rental fleet and service vehicles. Even though we have idle rental equipment, at times we 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.

Cash flows

At September 30, 2014, we had cash and cash equivalents of \$5.1 million compared to \$24.4 million at December 31, 2013. Our cash flow from operations of \$26.5 million was offset by capital expenditures of \$46.4 million, during the nine months ended September 30, 2014. We had working capital of \$30.7 million at September 30, 2014 compared to \$48.5 million at December 31, 2013. At September 30, 2014 and December 31, 2013, we had outstanding debt of \$417,000 and \$577,000, respectively, which is all related to our line of credit and classified as current. We had positive net cash flow from operating activities of \$26.5 million during the first nine months of 2014 compared to \$28.4 million for the first nine months of 2013. The cash flow from operations of \$26.5 million was primarily the result of the net income of \$10.1 million and the non-cash items of depreciation of \$15.8 million and \$2.4 million related to the expensing associated with stock options and restricted shares.

Strategy

For the remainder of the fiscal year 2014 and into 2015, our overall plan 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 in line with market conditions. For the remainder of 2014, our forecasted capital expenditures will be directly dependent upon our customers' compression requirements and are not anticipated to exceed our internally generated cash flows and cash on hand. 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 and our line of credit will be sufficient to satisfy our capital and liquidity

requirements for the foreseeable future. We may require additional capital to fund any unanticipated expenditures, including any acquisitions of other businesses, although that capital, beyond our line of credit, as discussed below may not be available to us when we need it or on acceptable terms. Capital expenditures for the year ending December 31, 2014 are not anticipated to exceed our internal cash generating capacity and our line of credit. We may require additional capital to fund any unanticipated expenditures, including any acquisitions of other businesses.

Bank Borrowings

We have a senior secured revolving credit agreement with JP Morgan Chase Bank, N.A (the "Amended Credit Agreement") aggregate commitment \$30 million, subject to collateral availability. We also have a right to request from the lender, on an uncommitted basis, an increase of up to \$20 million on the aggregate commitment (which could potentially increase the commitment amount to \$50 million).

Borrowing Base. At any time before the maturity of the Amended Credit Agreement, 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. We had \$29.5 million borrowing base availability at September 30, 2014, under the terms of our Amended Credit Agreement.

Interest and Fees. Under the terms of the Amended 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 Amended Credit Agreement), 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 agreement may be outstanding at any one time. For purposes of the LIBOR-based interest rate, the Applicable Margin is 1.25%. For purposes of the CB Floating Rate, the Applicable Margin is 1.50%. For the nine month period ended September 30, 2014, our weighted average interest rate was 1.4%.

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 Amended Credit Agreement is December 31, 2014, at which time all amounts borrowed under the agreement will be due and outstanding letters of credit must be cash collateralized. The agreement may be terminated early upon our request or the occurrence of an event of default. We are in the process of finalizing the terms of a new or extended credit agreement. We expect to have an agreement in place prior to the December 31, 2014 maturity of our current credit agreement.

Security. The obligations under the Amended Credit Agreement are secured by a first priority lien on all of our inventory and accounts and leases receivables, along with a first priority lien on a variable number of our leased compressor equipment the book value of must be maintained at a minimum of 2.00 to 1.00 commitment coverage ratio (such ratio being equal to (i) the amount of the borrowing base as of such date to (ii) the amount of the commitment as of such date.)

Covenants. The Amended 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 also 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 Amended Credit Agreement 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 loan 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 Amended Credit Agreement may be accelerated upon the occurrence of an event of default.

As of September 30, 2014, we were in compliance with all covenants in our Amended Credit Agreement. A default under our Credit Agreement 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 other credit. At September 30, 2014, our balance on the line of credit was \$417,000.

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:

Cash Contractual Obligations	Obligations Due in Period (in thousands)					Total
	2014 ⁽¹⁾	2015	2016	2017	Thereafter	
Line of credit (secured)	\$417	\$—	\$—	\$—	\$—	\$417
Interest on line of credit ⁽²⁾	17	—	—	—	—	17
Purchase obligations	100	478	478	478	1,072	2,606
Other long-term liabilities	—	—	—	—	164	164
Facilities and office leases	72	288	261	241	130	992
Equipment leases	3	13	7	2	—	25
Vehicle leases	8	—	—	—	—	8
Total	\$617	\$779	\$746	\$721	\$1,366	\$4,229

(1)For the three months remaining in 2014.

(2)Assumes an interest rate of 4.0% and no additional borrowings.

Critical Accounting Policies and Practices

There have been no changes in the critical accounting policies disclosed in the Company's Form 10-K for the year ended December 31, 2013.

Recently Issued Accounting Pronouncements

On May 28, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), as part of a joint project with the International Accounting Standards Board (IASB) to clarify revenue-recognizing principles and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU No. 2014-09 finalizes Proposed ASU Nos. 1820-100, 2011-230 and 2011-250 and is expected, among other things, to remove inconsistencies and weaknesses in revenue requirements and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. In particular, the amendments in this ASU will be added to the FASB Accounting Standards Codification (FASB ASC) as Topic 606, Revenue from Contracts with Customers, and will supersede the revenue recognition requirements in FASB ASC 605, Revenue Recognition, as well as some cost guidance in FASB ASC Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the guidance provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. For public entities, the amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is prohibited. Additionally, an entity should apply the amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects the latter, transition method, then it must also provide the additional disclosures in reporting periods that include the date of initial application of (1) the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and (2) an explanation of the reasons for significant changes. The new standard will be effective during our first quarter ending March 31, 2017. We are currently evaluating the new standard to determine which reporting option allows us to report the most meaningful information and are still evaluating the potential impact this new standard may have 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 September 30, 2014, 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.

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 our 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 our products and services; and

new governmental safety, health and environmental regulations which could require us 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 we undertake 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, 2013 filed with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no changes in the market risks disclosed in the Company's Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures

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 Vice President and Principal Accounting Officer, 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 Vice President and Principal Accounting Officer 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 or omissions 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.

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 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 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, 2013 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 on August 14, 2009)
- 10.1

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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)

10.2 2009 Restricted Stock/Unit Plan, as amended (Incorporated by reference to Appendix A of the Registrant's definitive proxy statement on schedule 14A filed April 22, 2014.)

10.3 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.)

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- 10.4 Lease Agreement, dated December 11, 2008, between Klement-Wes Partnership, LTD and Natural Gas Services Group, Inc. and commencing on January 1, 2009
- 10.5 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, 2010.)
- 10.6 First Amendment of Credit Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 31, 2011 (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 January 9, 2012.)
- 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, 2010.)
- 10.8 First Amendment of Security Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 31, 2011 (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 January 9, 2012.)
- 10.9 Promissory Note in the aggregate amount of \$30,000,000 issued to JPMorgan Chase Bank, N.A., dated December 31, 2011, 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 January 16, 2011.)
- 10.10 Employment Agreement between Natural Gas Services Group, Inc. and Stephen C. Taylor dated October 23, 2013 (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 25, 2013)
- *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
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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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
(Principal Executive Officer)

/s/ G. Larry Lawrence
G. Larry Lawrence
Vice President and Chief Financial Officer
(Principal Accounting Officer)

November 7, 2014

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- 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 on August 14, 2009)

- 10.1 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)
- 10.2 2009 Restricted Stock/Unit Plan, as amended (Incorporated by reference to Appendix A of the Registrant's definitive proxy statement on schedule 14A filed April 22, 2014.)
- 10.3 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.)
- 10.4 Lease Agreement, dated December 11, 2008, between Klement-Wes Partnership, LTD and Natural Gas Services Group, Inc. and commencing on January 1, 2009
- 10.5 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, 2010.)
- 10.6 First Amendment of Credit Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 31, 2011 (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 January 9, 2012.)
- 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, 2010.)
- 10.8 First Amendment of Security Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 31, 2011 (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 January 9, 2012.)
- 10.9 Promissory Note in the aggregate amount of \$30,000,000 issued to JPMorgan Chase Bank, N.A., dated December 31, 2011, 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 January 16, 2011.)
- 10.10 Employment Agreement between Natural Gas Services Group, Inc. and Stephen C. Taylor dated October 23, 2013 (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 25, 2013)
- *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

101.INS XBRL Instance Document
101.SCH XBRL Taxonomy Extension Schema Document
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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