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NATURAL GAS SERVICES GROUP INC
Form 10QSB
May 15, 2003

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

FORM 10-QSB

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2003

OR

() TRANSITION REPORT UNDER 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)

(915) 563-3974
(Issuer's Telephone number)

N/A

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be
filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of
securities under a plan confirmed by a court.

Yes 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 April 30, 2003
-----	-----
Common Stock, \$.001 par value	4,857,632

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

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NATURAL GAS SERVICES GROUP, INC.

Commission File Number: 1-31398

Quarter Ended March 31, 2003

FORM 10-QSB

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Natural Gas Services Group, Inc.

Consolidated Balance Sheet

(unaudited)

March 31, 2003

ASSETS

Current Assets:

Cash and cash equivalents	\$ 1,611,244
Accounts receivable - trade	981,398
Lease receivable - net	100,143
Inventory	2,204,467
Prepaid expenses	45,038

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Total current assets	4,942,290
Property, plant and equipment, net	18,443,470
Goodwill, net	2,589,655
Patents, net	134,555
Lease receivable net	87,198
Other assets	113,423
Total assets	\$26,310,591
=====	
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Current portion of long term debt and capital lease	\$ 2,224,133
Accounts payable and accrued liabilities	848,809
Unearned Income	423,946
Total current liabilities	3,496,888
Long term portion, less current portion and capital lease	7,110,375
Subordinated notes, net	1,360,626
Deferred income tax payable	1,254,856
Total liabilities	13,222,745
SHAREHOLDERS' EQUITY	
Preferred stock	3,817
Common stock	48,576
Paid in capital	10,968,733
Retained earnings	2,066,720
Total shareholders' equity	13,087,846
Total liabilities and shareholders' equity	\$26,310,591
=====	

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

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

	Three months ended March 31,	
	2003	2002
Revenue:		
Sales	\$ 565,272	\$ 1,349,017
Service and maintenance income	377,310	341,862
Leasing income	1,401,163	999,517

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	-----	-----
	2,343,745	2,690,396
Cost of revenue:		
Cost of sales	433,173	1,065,152
Cost of service and maintenance	335,301	333,148
Cost of leasing	360,917	282,535
	-----	-----
	1,129,391	1,680,835
	-----	-----
Gross Margin	1,214,354	1,009,561
Operating Cost:		
Selling expense	138,947	124,667
General and administrative expense	380,166	273,541
Amortization and depreciation	361,966	254,404
	-----	-----
	881,079	652,612
	-----	-----
Operating income	333,275	356,949
Interest expense	(154,083)	(257,360)
Equity in earnings of joint venture	--	83,452
Other income	22,547	1,698
	-----	-----
Income before income taxes	201,739	184,739
Provision for income tax	83,856	88,563
	-----	-----
Net income	117,883	96,176
Preferred dividends	31,010	44,185
	-----	-----
Net income available to common shareholders	\$ 86,873	\$ 51,991
	=====	=====
Earnings per share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.01
Weighted average Shares:		
Basic	4,857,632	3,357,632
Diluted	5,059,456	3,798,176

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

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Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended March 31, 2003 -----	Three Months Ended March 31, 2002 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 117,883	\$ 96,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	361,966	254,000
Deferred taxes	83,856	88,000
Amortization of debt issuance costs	16,239	16,000
Equity in earnings of joint venture	--	(83,000)
Gain on disposal of assets	(14,979)	--
Changes in operating assets and liabilities:		
Trade and other receivables	(335,448)	(375,000)
Inventory	(658,519)	(255,000)
Prepaid expenses and other	128,264	21,000
Accounts payable and accrued liabilities	146,651	188,000
Deferred income	106,385	27,000
Other	(85,659)	(55,000)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(133,361)	(77,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,143,155)	(782,000)
Acquisition of remaining interest in LLC net of cash acquired	241,953	--
Proceeds from sale of property and equipment	105,000	--
Decrease in lease receivable	23,171	20,000
Distribution from equity method investee	49,890	57,000
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(2,723,141)	(704,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from bank loans and line of credit	2,225,623	675,000
Repayments of long term debt	(440,505)	(231,000)
Proceeds from stock offering, net of offering cost	--	12,000
Dividends paid on preferred stock	(31,010)	(44,000)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	1,754,108	411,000
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,102,394)	(370,000)
CASH AT BEGINNING OF PERIOD	2,713,638	506,000
	-----	-----
CASH AT END OF PERIOD	\$ 1,611,244	\$ 136,000
	=====	=====
SUPPLEMENTAL DICLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 154,083	\$ 257,000
Income taxes paid	\$ --	\$ --

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited financial statements present the consolidated results of our company and its wholly-owned subsidiaries taken from our books and records. In our opinion, such information includes all adjustments, consisting of only normal recurring adjustments, which are necessary to make our financial position at March 31, 2003 and the results of our operations for the three months periods ended March 31, 2003 and 2002 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 principals 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 on file with the SEC. Investments in joint ventures in which our company does not have majority voting control are accounted for by the equity method. All intercompany balances and transactions have been eliminated in consolidation. In our opinion, the consolidated financial statements are a fair presentation of the financial position, results of operations and cash flows for the periods presented.

The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2003

(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 its 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 pro forma net income and earnings per share would have been reduced to the pro forma amounts listed below:

	Three Months Ended March 31,	
	2003	2002
	-----	-----
Pro forma impact of fair value method		
Income applicable to common shares, as reported	86,873	51,991
Pro-forma stock-based compensation costs under the fair value method, net of related tax	(7,683)	
Pro-forma income applicable to common shares under the fair-value method	79,190	51,991
Earnings per common share		
Basic earnings per share reported	0.02	0.02
Diluted earnings per share reported	0.02	0.01
Pro-forma basic earnings per share under the fair value method	0.02	0.02

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Pro-forma diluted earnings per share under the fair value method	0.02	0.01
Weighted average Black-Scholes fair value assumptions:		
Risk free rate	4.0%-5.2%	4.0%-5.2%
Expected life	5-10 yrs	5-10 yrs
Expected volatility	50.0%	50.0%
Expected dividend yield	0.0%	0.0%

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(3) Acquisitions

On February 28, 2003 we entered into an agreement with Hy-Bon Engineering Company, Inc. ("Hy-Bon") pursuant to which we agreed to purchase and Hy-Bon agreed to sell 28 of it's compressor packages. The adjusted purchase price amounted to approximately \$2,140,000. As part of the purchase and sale agreement, Hy-Bon will withdraw as a member of Hy-Bon Rotary Compression, L.L.C. effective as of January 1, 2003. We, as the other member of Hy-Bon Rotary Compression, L.L.C., will retain all assets of Hy-Bon Rotary Compression, L.L.C. that as of December 31, 2002, had an unaudited aggregate value of \$346,511. We plan to dissolve Hy-Bon Rotary Compression, L.L.C. and have agreed not to operate under the name Hy-Bon.

(4) Long Term Debt

We entered into a new loan agreement with our bank, as of March 26, 2003 that included new borrowing of \$2,150,000 in the form of a term loan with monthly principal payments of \$35,833 with interest at 1% over prime for 60 months. The proceeds from this new borrowing were used to purchase the 28 gas compressors from Hy-Bon Engineering Company Inc. The new loan agreement also included the renewal of our line of credit for \$750,000 with interest at 1% over prime for one year.

(5) Segment information

FAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for public companies relating to the reporting of information about their operating segments in financial statements. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by chief operating decision-makers in deciding how to allocate resources and in assessing performance.

Our segment information is set forth in the following table:

(in thousands)	Rotary Gas	NGE Leasing	Great Lakes Compression	Natural Gas Services Group	Total
Three Months Ended March 31, 2003	-----	-----	-----	-----	-----
Revenue	\$ 444	\$ 859	\$ 1,041	\$ --	\$ 2,344
Inter-segment revenue	1,407	17	5	--	1,429

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Net Income	(43)	333	129	(301)	118
Segment Assets	4,201,698	12,793,607	8,852,262	463,024	26,310,591

(in thousands)	Rotary Gas	NGE Leasing	Great Lakes Compression	Natural Gas Services Group	Total
Three Months Ended March 31, 2002	-----	-----	-----	-----	-----
Revenue	\$ 867	\$ 499	\$ 1,324	\$ --	\$ 2,690
Inter-segment revenue	1,417			--	1,417
Net Income	17	233	54	(208)	96
Segment Assets	2,496,603	5,628,512	9,127,166	2,316,022	19,568,303

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(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 March 31,	
	2003	2002
	-----	-----
Basic earnings per share Numerator:		
Net income	\$ 117,883	\$ 96,176
Less: dividends on preferred shares	(31,010)	(44,185)
	-----	-----
Net income available to common shareholders	\$ 86,873	\$ 51,991
	=====	=====
Denominator -		
Common shares outstanding	4,857,632	3,357,632
	=====	=====
Basic earnings per share	\$ 0.02	\$ 0.02
	=====	=====
Diluted earnings per share Numerator:		
Net income	\$ 117,883	\$ 96,176
Less: dividends on preferred shares (1)	(31,010)	(44,185)
	-----	-----
Net income available to common shareholders	\$ 86,873	\$ 51,991
	=====	=====
Denominator :		
Common shares outstanding	4,857,632	3,357,632
Common stock options and warrants	201,824	440,544
Conversion of preferred shares (1)	--	--
	-----	-----
	5,059,456	3,798,176
	=====	=====

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Diluted earnings per share	\$ 0.02	\$ 0.01
	=====	=====

(1) preferred shares were anti-dilutive for the three months ended March 31, 2003 and 2002

Management's Discussion and Analysis

Overview

We include the operations of Rotary Gas Systems, NGE Leasing and Great Lakes Compression. These entities provide products and services to the oil and gas industry and are 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. We are the parent company and provide administrative and management support and, therefore, have expenses associated with that activity.

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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 gas compressors.

At March 31, 2003, we had cash and cash equivalents of \$1,611,000, working capital of \$1,445,000 and non-subordinated debt of \$9,334,000 of which approximately \$2,224,000 was classified as current. We had negative net cash flow from operating activities of approximately \$133,000 during the first three months of 2003. This was primarily from net income of \$118,000 plus depreciation and amortization of \$362,000, an increase in accounts payable and accrued liabilities of \$147,000, an increase in deferred taxes of \$84,000 and an increase in deferred income of \$106,000 offset by an increase in inventory of \$658,000 and receivable of \$335,000.

On October 24, 2002 we paid off the note of \$6,952,464 payable to Dominion Michigan, used for the acquisition of the compression related assets of Great Lakes Compression. \$3,452,464 of the funds to pay the note came from the proceeds of our initial public offering, and \$3,500,000 came from additional bank financing to be amortized over 60 months at prime plus 1%.

We entered into a new loan agreement with our bank, dated as of March 26, 2003. This included new borrowing of \$2,150,000 in the form of a term loan with monthly principal payments of \$35,833 with interest at 1% over prime for 60 months. The proceeds from this new borrowing were used to purchase the 28 gas compressors from Hy-Bon. The new loan agreement also included the renewal of our line of credit for \$750,000 with interest at 1% over prime for one year. No funds have been drawn under the line of credit as of March 31, 2003.

Funds from the initial public offering, which closed on October 24, 2002, will permit us to actively pursue adding gas compressors to our rental

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fleet. We expect to fund additional rental units through the use of the offering proceeds, additional bank debt and cash flow from operations.

A summary of the use of proceeds from our initial public offering as of March 31, 2003 is as follows:

- o \$3,452,464 million to reduce indebtedness;
- o \$1,801,714 for the manufacture of gas compressors to be placed in our rental fleet, and
- o \$1,268,992 in temporary investments.

Results of Operations

Three Months Ended March 31, 2003 Compared to the Three Months Ended March 31, 2002

(in thousands)	Rotary Gas	NGE Leasing	Great Lakes Compression	Natural Gas Services Group
Three Months Ended March 31, 2003	-----	-----	-----	-----
Revenue	\$ 444	\$ 859	\$ 1,041	\$ --
Inter-segment revenue	1,407	17	5	--
Gross margin	203	631	380	--
Selling, general and administrative expense	210	41	65	204
Depreciation and amortization Expense	34	164	158	5
Operating income (loss)	(41)	426	157	(209)
Interest expense	1	100	45	8
Other income or (expense)	(1)	7	17	84
Provision for income tax	-----	-----	-----	-----
Net Income (loss)	\$ (43)	\$ 333	\$ 129	\$ (301)
	=====	=====	=====	=====

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Three Months Ended March 31, 2002				
Revenue	867	499	\$ 1,324	\$ --
Inter-segment revenue	1,417	--	1,417	--
Gross margin	246	362	402	--
Selling, general and administrative expense	199	38	61	101
Depreciation and amortization expense	29	86	130	9
Operating income (loss)	18	238	211	(110)

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Interest expense	2	89	157	9
Equity in earnings from joint venture		83		
Other income or (expense)	1	1		
Provision for income tax				89
	-----	-----	-----	-----
Net income (loss)	17	\$ 233	54	\$ (208)
	=====	=====	=====	=====

Rotary Gas Systems Operations

Revenue from outside sources decreased \$423,000 or 49% for the three months ended March 31, 2003 compared to the same period ended March 31, 2002. Because our products are custom-built, fluctuations in revenue from outside sources are expected. This decrease was the result of a reduction in the sale of compressor and flare units to third parties.

The gross margin percentage increased from 28% for the three months ended March 31, 2002, to 46% for the same period ended March 31, 2003. This increase resulted mainly from a change in the sales product mix. Our product mix in the three months ended March 31, 2003 included a larger percentage of rebuild, parts and service which have a greater margin than compressor unit sales.

Selling, general and administrative expense increased from \$199,000 to \$210,000 or 6% for the three months ended March 31, 2002, as compared to the same period ended March 31, 2003. This was mainly the result of the increase in advertising and other selling expenses.

Depreciation expense increased 17% from \$29,000 to \$34,000 for the three months ended March 31, 2002, compared to the same period ended March 31, 2003. This increase was mainly due to the purchase of additional service vehicles, shop and office equipment.

There was a slight decrease in interest expense for the three months ended March 31, 2003 compared to the same period ended March 31, 2002, mainly due to the reduction in loan balances on vehicles.

NGE Leasing Operations

Revenue from our rental of natural gas compressors increased 72% for the three months ended March 31, 2003, compared to the same period in 2002. This increase is the result of units added to our rental fleet. From March 31, 2002 to March 31, 2003 we added 128 gas compressor units to our rental fleet, which included the 28 units we purchased from Hy-Bon as of February 28, 2003.

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The gross margin percentage remained constant at 73% for three months ending March 31, 2002 as compared to the same period ending 2003.

Selling, general and administrative expense increased from \$38,000 to \$41,000 for the three months ended March 31, 2003, as compared to the same period in 2002. This was mainly the result of an increase in sales commissions from increased rental revenue.

Depreciation expense increased 91% from \$86,000 to \$164,000 for the three months ended March 31, 2002, compared to the same period ended March 31,

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2003. This increase was the result of new gas compressor rental units being added to the rental fleet during the period.

There was an increase in interest expense from \$89,000 to \$100,000 for the three months ended March 31, 2003 as compared to the same period ended March 31, 2002. This is mainly as a result of an increase in bank debt used to build equipment for the rental fleet.

Great Lakes Compression

Revenue decreased 21% for the three months ended March 31, 2003, compared to the same period in 2002. This decrease resulted from a decrease in the sales of compression units to third parties. In the period ended March 31, 2002 we had unit sales of approximately \$148,000 to third parties while in the same period 2003 we had zero unit sales to third parties. Because our products are custom-built, fluctuations in revenue from outside sources are expected.

The gross margin percentage increased from 30% for the three months ending March 31, 2002 to 37% for the same period in 2003. The cost of revenue is comprised of expenses associated with the maintenance of the gas compressor rental activity, service, parts and manufacturing expenses. This increase resulted mainly from a change in the sales product mix.

Selling, general and administrative expense increased from \$61,000 to \$65,000 for the three months ended March 31, 2002, as compared to the same period in 2003. This is mainly the result of a increase in selling expense.

Depreciation expense increased from \$130,000 to \$158,000 for the three months ended March 31, 2002, compared to the same period ended March 31, 2003. The increase is the result of equipment that was added to the rental fleet.

There was a decrease in interest expense from \$157,000 to \$45,000 for the three months ended March 31, 2002 as compared to the same period ended March 31, 2003. This decrease resulted from a reduction of the debt owed to Dominion Michigan. Part of the proceeds from our initial public offering was used to reduce debt in the amount of \$3,452,464 and our bank financed the remaining balance.

Natural Gas Services Group

Selling, general and administrative expense increased from \$101,000 to \$204,000 or 103% for the three months ended March 31, 2002, as compared to the same period ended March 31, 2003. This was mainly the result of an added expense for being a publicly held company such as legal fees, auditor fees, underwriters and public relations fees.

Amortization and depreciation expense decreased from \$9,000 to \$5,000 or 44% for the three months ended March 31, 2002 compared to the same period ended March 31, 2003. This mainly resulted from vehicles that were moved to our subsidiary, Great Lakes Compression.

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Interest expense decreased from \$9,000 to \$8,000 or 11% for the three months ended March 31, 2002 compared to the same period ended March 31, 2003. This decrease resulted from a reduction in interest rate.

Provision of income tax is accounted for on a consolidated basis. Therefore, the tax for all companies is included in the Provision for income tax for Natural Gas Services Group. Provision for income tax decreased \$5,000 or 6%

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which is consistent with and pursuant to changes in state and federal tax statutes.

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 a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in timely alerting them to the material information relating to us and our consolidated subsidiaries required to be included in our periodic filings with the SEC.

(b) Changes in internal controls.

There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

On October 21, 2002, our Registration Statement (File No. 333-88314) was declared effective.

Since October 21, 2002, we have incurred an aggregate of approximately \$1,345,830 of expenses in connection with the offering, including underwriting discounts (\$708,750), expenses paid to or for the underwriter (\$157,500), and other expenses of the offering (\$479,680). Such amounts were not paid directly or indirectly to the directors, the officers or to persons owning 10% or more of any class of our equity securities or to our affiliates. Rather, such payments were to others. After deducting the total expenses, we received net offering proceeds of approximately \$6,529,170. Through March 31, 2003, the net offering proceeds have been used for:

- o \$3,458,464 to reduce indebtedness;
- o \$1,801,714 for the manufacture of gas compressors to be placed in our rental fleet and leased over the next one to two years; and
- o \$1,268,992 the remainder for working capital.

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Exhibits and Reports on Form 8-K

(a) Exhibits

- 2.1 Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc. (previously filed as Exhibit 2.1 to Natural Gas Services Group, Inc. Current Report on Form 8-K filed on March 6, 2003, File No. 1-31398, and incorporated herein by reference)
- 10.1 First Amended and Restated Loan Agreement between Natural Gas Services Group, Inc. and Western National Bank (previously filed as Exhibit 10.1 to Natural Gas Services Group, Inc. Current Report on Form 8-K filed on April 14, 2003, File No. 1-31398, and incorporated herein by reference)
- 99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Sections 1350
- 99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Sections 1350

(b) Reports on Form 8-K

On March 6, 2003, we filed a Current Report on Form 8-K dated February 28, 2003, with the Securities Exchange Commission under Item 5. Other Events to report our purchase of assets and LLC interest from Hy-Bon Engineering Company, Inc.

On April 14, 2003, we filed a Current Report on Form 8-K dated March 27, 2003, with the Securities Exchange Commission under Item 5. Other Events to report the execution of the First Amended a Restated Loan Agreement with Western National Bank.

SIGNATURES

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

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wayne L. Vinson

Wayne L. Vinson
President and Chief Executive
Officer

By: /s/ Earl R. Wait

Earl R. Wait
Chief Financial Officer
And Treasurer

May ____, 2003

NATURAL GAS SERVICES GROUP, INC.

CERTIFICATION

I, Wayne L. Vinson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Natural Gas Services Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in

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this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May __, 2003

/s/WayneL. Vinson

Wayne L. Vinson

Title: Chief Executive Officer

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NATURAL GAS SERVICES GROUP, INC.

CERTIFICATION

I, Earl R. Wait, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Natural Gas Services Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the

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registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May __, 2003

/s/Earl R. Wait

Earl R. Wait

Title: Chief Financial Officer

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EXHIBIT INDEX

- | | |
|------|--|
| 2.1 | Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc. (previously filed as Exhibit 2.1 to Natural Gas Services Group, Inc. Current Report on Form 8-K filed on March 6, 2003, File No. 1-31398, and incorporated herein by reference) |
| 10.1 | First Amended and Restated Loan Agreement between Natural Gas Services Group, Inc. and Western National Bank (previously filed as Exhibit 10.1 to Natural Gas Services Group, Inc. Current Report on Form 8-K filed on April 14, 2003, File No. 1-31398, and incorporated herein by reference) |
| 99.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 |
| 99.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 |

