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Emails	kim.huckaba@ngsgi.com mark.walker@ngsgi.com

Documents

10-Q	form_10-q.htm 10-Q 2nd Quarter 2008
EX-31.1	exhibit_31.htm Exhibit 31.1 10-Q 2nd Quarter 2008
EX-31.2	exhibit_312.htm Exhibit 31.2 10-Q 2nd Quarter 2008
EX-32.1	exhibit_32.htm Exhibit 32.1 10-Q 2nd Quarter 2008
EX-32.2	exhibit_322.htm Exhibit 32.2 10-Q 2nd Quarter 2008
GRAPHIC	ngsgilogo2.jpg NGSG Logo
EX-14.14	exhibit10_14.htm Exhibit 10.14 Eighth Amended & Restated Loan Agreement
EX-14.15	exhibit10_15.htm Exhibit 10.15 Revolving Line of Credit
10-Q	form_10-q.pdf pdf of Entire 10-Q 2nd Quarter 2008 Submission

Module and Segment References

SEC EDGAR XFDL Submission Header

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

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

OR

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

Commission File Number 1-31398



NATURAL GAS SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

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

508 W. Wall St., Ste 550
Midland, Texas 79701
(Address of principal executive offices)
(432) 262-2700

(Registrant's telephone number, including area code)

2811 SCR1260
Midland, TX 79701
(Former name or former address, if changed since last report)

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 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	Outstanding at August 07, 2008
Common Stock, \$.01 par value	12,090,833

NATURAL GAS SERVICES GROUP, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2007	June 30, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 245	\$ 890
Short-term investments	18,661	6,427
Trade accounts receivable, net of doubtful accounts of \$110 and \$130, respectively	11,322	10,524
Inventory, net of allowance for obsolescence of \$273 and \$333, respectively	20,769	30,101
Prepaid income taxes	3,584	282
Prepaid expenses and other	641	83
Total current assets	<u>55,222</u>	<u>48,307</u>
Rental equipment, net of accumulated depreciation of \$16,810 and \$20,300, respectively	76,025	93,240
Property and equipment, net of accumulated depreciation of \$4,792 and \$5,203, respectively	8,580	8,910
Goodwill, net of accumulated amortization of \$325, both periods	10,039	10,039
Intangibles, net of accumulated amortization of \$1,145 and \$1,299, respectively	3,324	3,170
Other assets	43	21
Total assets	<u>\$ 153,233</u>	<u>\$ 163,687</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt and subordinated notes	\$ 4,378	\$ 3,378
Line of credit	600	—
Accounts payable	4,072	6,856
Accrued liabilities	3,990	5,888
Current income tax liability	3,525	97
Deferred income	81	1,751
Total current liabilities	<u>16,646</u>	<u>17,970</u>
Long term debt, less current portion	9,572	7,883
Deferred income tax payable	12,635	16,198
Other long term debt	—	150
Total liabilities	<u>38,853</u>	<u>42,201</u>
Stockholders' equity:		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, 30,000 shares authorized, par value \$0.01; 12,085 and 12,091 shares issued and outstanding, respectively	121	121
Additional paid-in capital	83,460	83,716
Retained earnings	30,799	37,649
Total stockholders' equity	<u>114,380</u>	<u>121,486</u>
Total liabilities and stockholders' equity	<u>\$ 153,233</u>	<u>\$ 163,687</u>

See accompanying notes to these condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2008	2007	2008
Revenue:				
Sales, net	\$10,159	\$9,159	\$19,665	\$18,785
Rental income	7,222	10,095	14,162	19,105
Service and maintenance income	243	224	509	521
Total revenue	<u>17,624</u>	<u>19,478</u>	<u>34,336</u>	<u>38,411</u>
Operating costs and expenses:				
Cost of sales, exclusive of depreciation stated separately below	7,292	6,238	13,962	12,631
Cost of rentals, exclusive of depreciation stated separately below	2,989	4,094	5,724	7,498
Cost of service and maintenance, exclusive of depreciation stated separately below	137	152	324	360
Selling, general, and administrative expense	1,262	1,485	2,462	2,835
Depreciation and amortization	1,810	2,364	3,527	4,489
Total operating costs and expenses	<u>13,490</u>	<u>14,333</u>	<u>25,999</u>	<u>27,813</u>
Operating income	4,134	5,145	8,337	10,598
Other income (expense):				
Interest expense	(298)	(193)	(598)	(434)
Other income	364	141	716	374
Total other income (expense)	<u>66</u>	<u>(52)</u>	<u>118</u>	<u>(60)</u>
Income before provision for income taxes	4,200	5,093	8,455	10,538
Provision for income taxes	1,554	1,760	3,128	3,688
Net income	<u>\$2,646</u>	<u>\$3,333</u>	<u>\$5,327</u>	<u>\$6,850</u>
Earnings per share:				
Basic	\$0.22	\$0.28	\$0.44	\$0.57
Diluted	\$0.22	\$0.27	\$0.44	\$0.56
Weighted average shares outstanding:				
Basic	12,063	12,088	12,065	12,087
Diluted	12,091	12,152	12,087	12,150

See accompanying notes to these condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$5,327	\$6,850
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,527	4,489
Deferred taxes	42	3,688
Employee stock options expensed	194	181
Gain on sale of property and equipment	(9)	(14)
Changes in current assets and liabilities:		
Trade accounts receivables, net	(995)	798
Inventory, net	(3,114)	(9,332)
Prepaid expenses and other	(107)	558
Accounts payable and accrued liabilities	2,970	4,682
Current income tax liability	468	(220)
Deferred income	464	1,670
Other	4	18
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,771	13,368
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(9,011)	(21,897)
Purchase of short-term investments	(2,050)	(294)
Redemption of short-term investments	3,000	12,528
Proceeds from sale of property and equipment	34	35
NET CASH USED IN INVESTING ACTIVITIES	(8,027)	(9,628)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from other long-term debt	—	150
Proceeds from line of credit	—	500
Repayments of long-term debt	(2,753)	(2,689)
Repayments of line of credit	—	(1,100)
Proceeds from exercise of stock options and warrants	154	44
NET CASH USED IN FINANCING ACTIVITIES	(2,599)	(3,095)
NET CHANGE IN CASH	(1,855)	645
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,391	245
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$2,536	\$890
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$496	\$477
Income taxes paid	\$2,683	\$220

See accompanying notes to these condensed consolidated financial statements.

NATURAL GAS SERVICES GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated financial statements present the condensed consolidated results of our company taken from our books and records. In our opinion, such information includes all adjustments, consisting of only normal recurring adjustments, which are necessary to make our financial position at June 30, 2008 and December 31, 2007 and the results of our operations for the three month and six month periods ended June 30, 2008 and June 30, 2007 not misleading. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC) the accompanying condensed consolidated financial statements do not include all disclosures normally required by accounting principles generally accepted in the United States of America. These condensed consolidated 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, 2007 on file with the SEC. In our opinion, the condensed consolidated financial statements are a fair presentation of the financial position, results of operations and cash flows for the periods presented.

The results of operations for the six month period ended June 30, 2008 is not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2008.

Unless otherwise noted, amounts reported in tables are in thousands, except per share data and stock option data.

Short-Term investments

Short-term investments consist primarily of government and corporate bonds with original maturities of ninety days to one year.

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 for 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.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, which defers the effective date of SFAS No. 157 for non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those years. We adopted the required provisions of SFAS No. 157 on January 1, 2008 and the adoption did not have a significant impact on our financial statements. See Note 3 for additional information regarding fair value measurements.

NATURAL GAS SERVICES GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 permits entities to measure eligible assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS No. 159 on January 1, 2008 and the adoption did not have a significant impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (“SFAS No. 141(R)”), which replaces SFAS No. 141, *Business Combinations*, and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This Statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values. SFAS No. 141(R) makes various other amendments to authoritative literature intended to provide additional guidance or to confirm the guidance in that literature to that provided in this Statement. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We do not expect the adoption of SFAS No. 141(R) will have a significant impact on our financial statements.

In December 2007, FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements* (“SFAS No. 160”), which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS No. 160 establishes accounting and reporting standards that require the ownership interests in subsidiaries not held by the parent to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent’s equity. This statement also requires the amount of consolidated net income attributable to the parent and to the non-controlling interest to be clearly identified and presented on the face of the consolidated statement of income. Changes in a parent’s ownership interest while the parent retains its controlling financial interest must be accounted for consistently, and when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary must be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any non-controlling equity investment. The Statement also requires entities to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This Statement applies prospectively to all entities that prepare consolidated financial statements and applies prospectively for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We do not expect the adoption of SFAS No. 160 will have a significant impact on our financial statements.

(2) Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* (“SFAS No. 123(R)”) using the modified prospective transition method. In addition, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107, *Share-Based Payment* (“SAB No. 107”) in March, 2006, which provides supplemental SFAS No. 123(R) application guidance based on the views of the SEC. Under the modified prospective transition method, compensation cost recognized in the quarterly periods ended June 30, 2007 and 2008 included: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

NATURAL GAS SERVICES GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A summary of option activity under our 1998 Stock Option plan for the six month period ended June 30, 2008 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, 2007	167,502	\$ 11.25	7.77	\$ 1,401
Granted	55,000	20.17		
Exercised	5,833	7.47		
Forfeited or expired	4,668	12.11		
Outstanding, June 30, 2008	<u>212,001</u>	<u>\$ 13.65</u>	<u>7.89</u>	<u>\$ 3,568</u>
Exercisable, June 30, 2008	<u>141,501</u>	<u>\$ 11.32</u>	<u>7.21</u>	<u>\$ 2,712</u>

We granted options on January 15, 2008 and March 18, 2008. There were no options granted during the three months ended June 30, 2008. The total intrinsic value, or the difference between the exercise price and the market price on the date of exercise, of options exercised during the six months ended June 30, 2008, was approximately \$105,000. The Company received cash of approximately \$44,000 and realized an income tax benefit of approximately \$31,000 from stock options exercised during the six months ended June 30, 2008.

The following table summarizes information about the options outstanding at June 30, 2008:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Shares</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
\$ 0.00 – 5.58	25,000	4.37	\$ 4.00	25,000	\$ 4.00
5.59 – 9.43	60,000	6.97	9.11	60,000	9.11
9.44 – 15.60	47,001	8.53	14.33	24,001	14.05
15.61 – 20.48	<u>80,000</u>	<u>9.32</u>	<u>19.67</u>	<u>32,500</u>	<u>19.00</u>
\$ 0.00 – 20.48	<u>212,001</u>	<u>7.89</u>	<u>\$ 13.65</u>	<u>141,501</u>	<u>\$ 11.32</u>

NATURAL GAS SERVICES GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The summary of the status of the Company's unvested stock options as of June 30, 2008 and changes during the six months ended June 30, 2008 is presented below.

Unvested stock options:	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested at December 31, 2007	41,000	\$ 9.19
Granted	55,000	9.89
Vested	22,500	12.65
Forfeited	<u>3,000</u>	<u>5.40</u>
Unvested at June 30, 2008	<u>70,500</u>	<u>\$ 8.79</u>

As of June 30, 2008, there was approximately \$524,000 of unrecognized compensation cost related to unvested options. Such cost is expected to be recognized over a weighted-average period of 1.23 years. Total compensation expense for stock options was \$194,000 and \$181,000 for the six months ended June 30, 2007 and 2008, respectively. An income tax benefit was recognized from the exercise of stock options of approximately \$72,000 and \$31,000 for the six months ended June 30, 2007 and 2008, respectively.

(3) Fair Value Measurement

The financial assets of the company measured at fair value on a recurring basis are cash and cash equivalents and short-term investments. Our short-term investments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities and most money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade corporate bonds, and state, municipal and provincial obligations. Such instruments are generally classified within level 2 of the fair value hierarchy.

Our short-term investments of \$6.4 million as of June 30, 2008 are measured at fair value on a recurring basis by level 1 within the fair value hierarchy. As required by SFAS No. 157, these are classified based on the lowest level of input that is significant to the fair value measurement.

(4) Inventory

Inventory, net of allowance for obsolescence of \$273,000 at December 31, 2007 and \$333,000 at June 30, 2008 consisted of the following amounts:

	<u>December 31, 2007</u>	<u>June 30, 2008</u>
Raw materials	\$ 17,492	\$ 25,008
Work in process	3,277	5,093
	<u>\$ 20,769</u>	<u>\$ 30,101</u>

NATURAL GAS SERVICES GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(5) Long term debt

On May 16, 2008, we entered into an Eighth Amended and Restated Loan Agreement with Western National Bank, Midland, Texas, effective April 1, 2008. This Loan Agreement (1) decreased the interest rate on existing term loan facilities, and (2) extended and renewed our revolving line of credit facility. Our revolving line of credit and multiple advance term loan facilities are described below.

Revolving Line of Credit Facility. Our revolving line of credit facility allows us to borrow, repay and reborrow funds drawn under this facility. After entering into the Seventh Amended and Restated Loan Agreement, the total amount that we could borrow and have outstanding at any one time is the lesser of \$40.0 million or the amount available for advances under a "borrowing base" calculation established by the bank. As of June 30, 2008, the amount available for revolving line of credit advances under our borrowing base was \$40.0 million, and there was no principal amount outstanding under the revolving line of credit at that same date. The amount of the borrowing base is based primarily upon our receivables, equipment and inventory. The borrowing base is redetermined by the bank on a monthly basis. If, as a result of the redetermination of the borrowing base, the aggregate outstanding principal amount of the notes payable to the bank under the Loan Agreement exceeds the borrowing base, we must prepay the principal of the revolving line of credit note in an amount equal to such excess. Interest only on borrowings under our revolving line of credit facility is payable monthly on the first day of each month. All outstanding principal and unpaid interest is due on May 1, 2010. As of April 1, 2008, our interest rate on the revolving line of credit is equal to prime rate minus one quarter of one percent (.25%) but never lower than four percent (4%) nor higher than eight and three quarter percent (8.75%). No amounts were outstanding as of June 30, 2008 on this revolving line of credit facility..

\$16.9 Million Multiple Advance Term Loan Facility. This multiple advance term loan facility represents the consolidation of our previously existing advancing line of credit and term loan facilities. Reborrowings are not permitted under this facility. Principal under this credit facility is due and payable in 59 monthly installments of \$282,000 each, which commenced November 1, 2006 and continuing through September 1, 2011. As of April 1, 2008, our interest rate on the revolving line of credit is equal to prime rate minus one half of one percent (.50%) but never lower than four percent (4%) nor higher than eight and three quarter percent (8.75%). Interest on the unpaid principal balance is due and payable on the same dates as principal payments. All outstanding principal and unpaid interest is due on October 1, 2011. As of June 30, 2008 this term loan facility had a principal balance of \$11.3 million.

Our obligations under the Loan Agreement are secured by substantially all of our properties and assets, including our equipment, trade accounts receivable and other personal property and by the real estate and related plant facilities.

The maturity dates of the loan facilities may be accelerated by the bank upon the occurrence of an event of default under the Loan Agreement.

The Loan Agreement contains various restrictive covenants and compliance requirements. These requirements provide that we must have:

- At the end of each month, a consolidated current ratio (as defined in the Loan Agreement) of at least 1.6 to 1.0;
- At the end of each month, a consolidated tangible net worth (as defined in the Loan Agreement) of at least \$85 million;
- At the end of each fiscal quarter, a debt service coverage ratio (as defined in the Loan Agreement) of at least 1.50 to 1.00; and
- At the end of each month, a ratio of consolidated debt to consolidated tangible net worth (as such terms are defined in the Loan Agreement) of less than 2.0 to 1.0.

The Loan Agreement also contains restrictions on incurring additional debt and paying dividends.

As of June 30, 2008, we were in compliance with all material covenants in our Loan Agreement. A default under our bank credit facility could trigger the acceleration of our bank debt so that it is immediately due and payable. Such default would have a material adverse effect on our liquidity, financial position and operations.

NATURAL GAS SERVICES GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(6) Earnings per Share

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

	Three months Ended June 30,		Six months Ended June 30,	
	2007	2008	2007	2008
Numerator:				
Net income	\$2,646	\$3,333	\$5,327	\$6,850
Denominator for basic net income per common share:				
Weighted average common shares outstanding	12,063	12,088	12,065	12,087
Denominator for diluted net income per share:				
Weighted average common shares outstanding	12,063	12,088	12,065	12,087
Dilutive effect of stock options and warrants	28	64	22	63
Diluted weighted average shares	12,091	12,152	12,087	12,150
Earnings per common share:				
Basic	\$0.22	\$0.28	\$0.44	\$0.57
Diluted	\$0.22	\$0.27	\$0.44	\$0.56

(7) Segment Information

SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, establishes standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by chief operating decision makers in the allocation of resources and the assessment of performance.

The Company identifies its segments based upon major revenue sources as follows:

For the three months ended June 30, 2008:

	Sales	Rental	Service & Maintenance	Corporate	Total
Revenue	\$ 9,159	\$ 10,095	\$ 224	\$ —	\$ 19,478
Operating costs and expenses	6,238	4,094	152	3,849	14,333
Other income/(expense)	—	—	—	(52)	(52)
Income before provision for income taxes	\$ 2,921	\$ 6,001	\$ 72	\$ (3,901)	\$ 5,093
*Segment Assets	\$ —	\$ —	\$ —	\$ 163,687	\$ 163,687

For the three months ended June 30, 2007:

	Sales	Rental	Service & Maintenance	Corporate	Total
Revenue	\$ 10,159	\$ 7,222	\$ 243	\$ —	\$ 17,624
Operating costs and expenses	7,292	2,989	137	3,072	13,490
Other income/(expense)	—	—	—	66	66
Income before provision for income taxes	\$ 2,867	\$ 4,233	\$ 106	\$ (3,006)	\$ 4,200
*Segment Assets	\$ —	\$ —	\$ —	\$ 142,394	\$ 142,394

NATURAL GAS SERVICES GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2008:

	Sales	Rental	Service & Maintenance	Corporate	Total
Revenue	\$ 18,785	\$ 19,105	\$ 521	\$ —	\$ 38,411
Operating costs and expenses	12,631	7,498	360	7,324	27,813
Other income/(expense)	—	—	—	(60)	(60)
Income before provision for income taxes	\$ 6,154	\$ 11,607	\$ 161	\$ (7,384)	\$ 10,538
*Segment Assets	\$ —	\$ —	\$ —	\$ 163,687	\$ 163,687

For the six months ended June 30, 2007:

	Sales	Rental	Service & Maintenance	Corporate	Total
Revenue	\$ 19,665	\$ 14,162	\$ 509	\$ —	\$ 34,336
Operating costs and expenses	13,962	5,724	324	5,989	25,999
Other income/(expense)	—	—	—	118	118
Income before provision for income taxes	\$ 5,703	\$ 8,438	\$ 185	\$ (5,871)	\$ 8,455
*Segment Assets	\$ —	\$ —	\$ —	\$ 142,394	\$ 142,394

* Management does not track assets by segment

NATURAL GAS SERVICES GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(8) Legal Proceedings

On February 21, 2008, we received notice of a lawsuit filed against us on January 28, 2008 in Montmorency County, Michigan, 26th Circuit Court, Case No. 08-0001901-NZ, styled Dyanna Louise Williams, Plaintiff, v. Natural Gas Services Group, Inc. and Great Lakes Compression Inc., Defendants. In this lawsuit, plaintiff alleges breach of contract, breach of fiduciary duty and negligence. Plaintiff seeks damages in the amount of \$100,000 for lost insurance benefits and an unspecified amount of exemplary damages. As the basis for her claims, plaintiff generally alleges that she is the third party beneficiary of a life insurance policy obtained by her deceased ex-husband through Natural Gas Services Group's insurance program, and that as a result of Natural Gas Service Group's negligence and failure to use due care in processing an application for life insurance prior to her ex-husband's death, she was denied \$100,000 of life insurance proceeds. Plaintiff now seeks to recover \$100,000 from Natural Gas Services Group, plus an unspecified amount of exemplary damages. Due to the early stages of this lawsuit we are unable to accurately predict its outcome but we intend to file an answer denying all of plaintiff's claims and intend to vigorously contest the plaintiff's claims. We have not established a reserve with respect to plaintiff's claims.

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

NATURAL GAS SERVICES GROUP, INC.

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 consolidated financial statements and the related notes included elsewhere in this report and in our December 31, 2007 Form 10-K Report filed with the SEC. All dollar amounts reported in tables are in thousands of dollars unless otherwise noted.

Overview

We fabricate, manufacture, rent and sell natural gas compressors and related equipment. Our primary focus is on the rental of natural gas compressors. Our rental contracts generally provide for initial terms of six to 24 months. After the initial term of our rental contracts, most of our customers have continued to rent our compressors on a month-to-month basis. Rental amounts are paid monthly in advance and include maintenance of the rented compressors. As of June 30, 2008, we had 1,388 natural gas compressors totaling 168,355 horsepower rented to 108 customers, compared to 1,058 natural gas compressors totaling 123,276 horsepower rented to 96 customers at June 30, 2007.

We also fabricate natural gas compressors for sale to our customers, designing compressors to meet unique specifications dictated by well pressures, production characteristics and particular applications for which compression is sought. Fabrication of compressors involves the purchase by us of engines, compressors, coolers and other components, and then assembling these components on skids for delivery to customer locations. The major components of our compressors are acquired through periodic purchase orders placed with third-party suppliers on an "as needed" basis, which presently requires a three to four 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, Tulsa, Oklahoma 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. As of June 30, 2008, we had written maintenance agreements with customers relating to 46 compressors. Maintenance agreements typically have terms of nine months to one year and require payment of a monthly fee.

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

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

Demand for our products and service was strong throughout 2007 and the first half of 2008. We believe demand will remain strong throughout 2008 due to high oil and natural gas prices and increased demand for natural gas. Because of these market fundamentals for natural gas, we believe the long-term trend of activity in our markets is favorable. However, these factors could be more than offset by other developments affecting the worldwide supply and demand for natural gas.

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For fiscal year 2008, our forecasted capital expenditures are approximately \$40 - \$45 million, primarily for additions to our compressor rental fleet. We believe that the proceeds from our public offering of common stock in March 2006, together with funds available to us under our bank credit facility and cash flows from operations will be sufficient to satisfy our capital and liquidity requirements through 2008. We may require additional capital to fund any unanticipated expenditures, including any acquisitions of other businesses. Additional capital may not be available to us when we need it or on acceptable terms.

Results of Operations***Three months ended June 30, 2007, compared to the three months ended June 30, 2008.***

The table below shows our revenues and percentage of total revenues of each of our segments for the three months ended June 30, 2007 and June 30, 2008.

	Revenue			
	2007		2008	
Sales	\$ 10,159	58%	\$ 9,159	47%
Rental	7,222	41%	10,095	52%
Service and Maintenance	243	1%	224	1%
Total	<u>\$ 17,624</u>		<u>\$ 19,478</u>	

Total revenue increased from \$17.6 million to \$19.5 million, or 10.5%, for the three months ended June 30, 2008, compared to the same period ended June 30, 2007. This was mainly the result of increased rental revenue. Sales revenue decreased 9.8%, rental revenue increased 39.8%, and service and maintenance revenue decreased 7.8%.

Sales revenue decreased from \$10.2 million to \$9.2 million, or 9.8%, for the three months ended June 30, 2008, compared to the same period ended June 30, 2007. This decrease is mainly the result of shifting the production of a few sold units to producing compressor units for the rental fleet. Sales from outside sources included: (1) compressor unit sales, (2) flare sales, (3) parts sales, (4) compressor rebuilds and (5) rental unit sales.

Rental revenue increased from \$7.2 million to \$10.1 million, or 39.8%, for the three months ended June 30, 2008, compared to the same period ended June 30, 2007. This increase was the result of additional units added to our rental fleet and rented to third parties. The company ended the period with 1,546 compressor packages in its rental fleet, up from 1,208 units at June 30, 2007. The rental fleet had a utilization of 89.8% as of June 30, 2008 compared to 87.6% utilization as of June 30, 2007.

Service and maintenance revenue decreased from \$243,000 to \$224,000, or 7.8%, for the three months ended June 30, 2008, compared to the same period ended June 30, 2007.

The overall operating margin percentage increased to 26.4% for the three months ended June 30, 2008, from 23.5% for the same period ended June 30, 2007. This is mainly the result of increased margins on our rental fleet activity and the increased margin for gas compressor sales activity. The overall margin is also affected by the product mix between rental and sales, and since our rental margin is higher and rentals increased during the period, the overall margin moved higher. Because of the larger margins that we obtain from rentals it is generally our focus is to increase our rentals business.

Selling, general, and administrative expense increased from \$1.3 million to \$1.5 million or 17.7% for the three months ended June 30, 2008, as compared to the same period ended June 30, 2007. This increase is mainly due to an increase in sales commissions on rental equipment, added sales staff and increases in officers' salaries.

Depreciation and amortization expense increased from \$1.8 million, to \$2.4 million or 30.6% for the three months ended June 30, 2008, compared to the same period ended June 30, 2007. This increase was the result of 338 new gas compressor rental units being added to the rental fleet from June 30, 2007 to June 30, 2008, thus increasing the depreciable base.

Other income net of other expense decreased \$223,000 for the three months ended June 30, 2008, compared to the same period ended June 30, 2007. This decrease is mainly the result of decreased balances in our short-term investments.

NATURAL GAS SERVICES GROUP, INC.

Interest expense decreased 35.2% for the three months ended June 30, 2008, compared to the same period ended June 30, 2007, mainly due to decreased principal balances owed under our bank loan facility.

Provision for income tax increased from \$1.6 million to \$1.8 million, or 13.3%, and is the result of the increase in taxable income.

Six months ended June 30, 2007, compared to the six months ended June 30, 2008.

The table below shows our revenues and percentage of total revenues of each of our segments for the six months ended June 30, 2007 and June 30, 2008.

	Revenue			
	Six months Ended June 30,		2008	
	2007		2008	
Sales	\$ 19,665	57%	\$ 18,785	49%
Rental	14,162	41%	19,105	50%
Service and Maintenance	509	2%	521	1%
Total	<u>\$ 34,336</u>		<u>\$ 38,411</u>	

Total revenue increased from \$34.3 million to \$38.4 million, or 11.9%, for the six months ended June 30, 2008, compared to the same period ended June 30, 2007. This was mainly the result of increased rental revenue. Sales revenue decreased 4.5%, rental revenue increased 34.9%, and service and maintenance revenue increased 2.4%.

Sales revenue decreased from \$19.7 million to \$18.8 million, or 4.5%, for the six months ended June 30, 2008, compared to the same period ended June 30, 2007. This decrease is mainly the result of shifting the production of a few sold units to producing compressor units for rental fleet. Sales from outside sources included: (1) compressor unit sales, (2) flare sales, (3) parts sales, (4) compressor rebuilds and (5) rental unit sales.

Rental revenue increased from \$14.2 million to \$19.1 million, or 34.9%, for the six months ended June 30, 2008, compared to the same period ended June 30, 2007. This increase was the result of additional units added to our rental fleet and rented to customers. The company ended the period with 1,546 compressor packages in its rental fleet, up from 1,208 units at June 30, 2007. The rental fleet has a utilization of 89.8% as of June 30, 2008.

Service and maintenance revenue increased from \$509,000 to \$521,000, or 2.4%, for the six months ended June 30, 2008, compared to the same period ended June 30, 2007. This increase is due to increased service in New Mexico and Michigan.

The overall operating margin percentage increased to 27.6% for the six months ended June 30, 2008, from 24.3% for the same period ended June 30, 2007. This is mainly the result of increased margins of our rental fleet activity. The overall margin is also affected by the product mix between rental and sales, since our rental margin is higher and rentals increased during the period the overall margin moved higher. Because of the larger margins that we obtain from rentals it is generally our focus to increase our rentals business.

Selling, general, and administrative expense increased from \$2.5 million, to \$2.8 million or 15.2% for the six months ended June 30, 2008, as compared to the same period ended June 30, 2007. This increase is mainly due to the increase in commissions on rental equipment additional sales personnel and an increase in officers' salaries.

Depreciation and amortization expense increased from \$3.5 million, to \$4.5 million or 27.3% for the six months ended June 30, 2008, compared to the same period ended June 30, 2007. This increase was the result of 338 new gas compressor rental units being added to the rental fleet from June 30, 2007 to June 30, 2008, thus increasing the depreciable base.

Other income net of other expense decreased \$342,000 for the six months ended June 30, 2008, compared to the same period ended June 30, 2007. This decrease is mainly the result of decreased balances in our short-term investments.

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Interest expense decreased 27.4% for the six months ended June 30, 2008, compared to the same period ended June 30, 2007, mainly due to decreased principal balances owed under our bank loan facility.

Provision for income tax increased from \$3.1 million to \$3.7 million, or 17.9%, and is the result of the increase in taxable income.

Critical Accounting Policies and Practices

A discussion of our critical accounting policies is included in the Company's Form 10-K for the year ended December 31, 2007.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, which defers the effective date of SFAS No. 157 for non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those years. We adopted the required provisions of SFAS No. 157 on January 1, 2008 and the adoption did not have a significant impact on our financial statements. See Note 3 for additional information regarding fair value measurements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of FASB Statement No. 115* ("SFAS No. 159"). SFAS No. 159 permits entities to measure eligible assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS No. 159 on January 1, 2008 and the adoption did not have a significant impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141(R)"), which replaces SFAS No. 141, *Business Combinations*, and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This Statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values. SFAS No. 141(R) makes various other amendments to authoritative literature intended to provide additional guidance or to confirm the guidance in that literature to that provided in this Statement. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We do not expect the adoption of SFAS No. 141(R) will have a significant impact on our financial statements.

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In December 2007, FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements* (“SFAS No. 160”), which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS No. 160 establishes accounting and reporting standards that require the ownership interests in subsidiaries not held by the parent to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent’s equity. This statement also requires the amount of consolidated net income attributable to the parent and to the non-controlling interest to be clearly identified and presented on the face of the consolidated statement of income. Changes in a parent’s ownership interest while the parent retains its controlling financial interest must be accounted for consistently, and when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary must be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any non-controlling equity investment. The Statement also requires entities to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This Statement applies prospectively to all entities that prepare consolidated financial statements and applies prospectively for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We do not expect the adoption of SFAS No. 160 will have a significant impact on our financial statements.

Liquidity and Capital Resources

The following represents the Company’s working capital position as of December 31, 2007 and June 30, 2008.

	December 31, 2007	June 30, 2008
	<u> </u>	<u> </u>
Current Assets:		
Cash and cash equivalents	\$ 245	\$ 890
Short-term investments	18,661	6,427
Trade accounts receivable, net	11,322	10,524
Inventory, net	20,769	30,101
Prepaid income taxes	3,584	282
Prepaid expenses and other	641	83
Total current assets	<u>55,222</u>	<u>48,307</u>
Current Liabilities:		
Current portion of long-term debt and subordinated notes	4,378	3,378
Line of credit	600	—
Accounts payable	4,072	6,856
Accrued liabilities	3,990	5,888
Current portion of tax liability	3,525	97
Deferred income	81	1,751
Total current liabilities	<u>16,646</u>	<u>17,970</u>
Total working capital	<u>\$ 38,576</u>	<u>\$ 30,337</u>

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

For the six months ended June 30, 2008, we invested \$22.0 million in equipment for our rental fleet and service vehicles. We financed this activity with cash flow from operations and cash on hand. In addition, we have repaid \$3.8 million of our existing debt.

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Cash flows

At June 30, 2008, we had cash, cash equivalents and short-term investments of \$7.3 million compared to \$18.9 million at December 31 2007. We had working capital of \$30.3 million at June 30, 2008 compared to \$38.6 million at December 31, 2007. At June 30, 2008, our total debt was \$11.4 million of which \$3.4 million was classified as current compared to \$14.6 million and \$4.4 million, respectively at December 31, 2007. We had positive net cash flow from operating activities of \$13.4 million during the first six months of 2008 compared to \$8.8 million for the first six months of 2007. This was primarily from net income of \$6.9 million, a decrease in accounts receivable of \$798,000 and an increase in accounts payable and accrued liabilities of \$4.7 million, offset by an increase in inventory of \$9.3 million during the six months ended June 30, 2008.

Accounts receivable decreased \$798,000 to \$10.5 million at June 30, 2008 as compared to \$11.3 million at December 31, 2007, this decrease largely reflects collections during the first half of 2008.

Inventory increased \$9.3 million to \$30.1 million as of June 30, 2008, as compared to \$20.8 million as of the year ended December 31, 2007. This increase is mainly the result of additional inventory to stock the service branches and an increase in raw materials to meet increased production scheduled.

Long-term debt decreased \$2.7 million to \$11.3 million at June 30, 2008, compared to \$14.0 million at December 31, 2007. This decrease is the result of the normal debt amortization. The current portion of long-term debt decreased to \$3.4 million at June 30, 2008, compared to \$4.4 million at December 31, 2007 due to the final payment of \$1.0 million of our subordinated debt on January 3, 2008.

Senior Bank Borrowings

On May 16, 2008, we entered into an Eighth Amended and Restated Loan Agreement with Western National Bank, Midland, Texas effective April 1, 2008. This Loan Agreement (1) decreased the interest rate on existing term loan facilities, and (2) extended and renewed our revolving line of credit facility. Our revolving line of credit and multiple advance term loan facilities are described below.

Revolving Line of Credit Facility. Our revolving line of credit facility allows us to borrow, repay and reborrow funds drawn under this facility. After entering into the Seventh Amended and Restated Loan Agreement, the total amount that we could borrow and have outstanding at any one time is the lesser of \$40.0 million or the amount available for advances under a "borrowing base" calculation established by the bank. As of June 30, 2008, the amount available for revolving line of credit advances under our borrowing base was \$40.0 million, and there was no principal amount outstanding under the revolving line of credit at that same date. The amount of the borrowing base is based primarily upon our receivables, equipment and inventory. The borrowing base is redetermined by the bank on a monthly basis. If, as a result of the redetermination of the borrowing base, the aggregate outstanding principal amount of the notes payable to the bank under the Loan Agreement exceeds the borrowing base, we must prepay the principal of the revolving line of credit note in an amount equal to such excess. Interest only on borrowings under our revolving line of credit facility is payable monthly on the first day of each month. All outstanding principal and unpaid interest is due on May 1, 2010. As of April 1, 2008, our interest rate on the revolving line of credit is equal to prime rate minus one quarter of one percent (.25%) but never lower than four percent (4%) nor higher than eight and three quarter percent (8.75%).

\$16.9 Million Multiple Advance Term Loan Facility. This multiple advance term loan facility represents the consolidation of our previously existing advancing line of credit and term loan facilities. Reborrowings are not permitted under this facility. Principal under this credit facility is due and payable in 59 monthly installments of \$282 thousand each, which commenced November 1, 2006 and continuing through September 1, 2011. As of April 1, 2008, our interest rate on the revolving line of credit is equal to prime rate minus one half of one percent (.50%) but never lower than four percent (4%) nor higher than eight and three quarter percent (8.75%). Interest on the unpaid principal balance is due and payable on the same dates as principal payments. All outstanding principal and unpaid interest is due on October 1, 2011. As of June 30, 2008 this term loan facility had a principal balance of \$11.3 million.

Our obligations under the Loan Agreement are secured by substantially all of our properties and assets, including our equipment, trade accounts receivable and other personal property and by the real estate and related plant facilities.

The maturity dates of the loan facilities may be accelerated by the bank upon the occurrence of an event of default under the Loan Agreement.

The Loan Agreement contains various restrictive covenants and compliance requirements. These requirements provide that we must have:

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- At the end of each month, a consolidated current ratio (as defined in the Loan Agreement) of at least 1.6 to 1.0;
- At the end of each month, a consolidated tangible net worth (as defined in the Loan Agreement) of at least \$85 million;
- At the end of each fiscal quarter, a debt service coverage ratio (as defined in the Loan Agreement) of at least 1.50 to 1.00; and
- At the end of each month, a ratio of consolidated debt to consolidated tangible net worth (as such terms are defined in the Loan Agreement) of less than 2.0 to 1.0.

The Loan Agreement also contains restrictions on incurring additional debt and paying dividends.

As of June 30, 2008, we were in compliance with all material covenants in our Loan Agreement. A default under our bank credit facility could trigger the acceleration of our bank debt so that it is immediately due and payable. Such default would have a material adverse effect on our liquidity, financial position and operations.

Subordinated Debt-Related Parties

We had subordinated debt which was included in the current portion of long-term debt for the year ended December 31, 2007. The \$3.0 million principal amount of this debt was in the form of promissory notes issued to the three stockholders of Screw Compression Systems who are currently employees of the Company, as part of the consideration for the acquisition of SCS we completed on January 3, 2005. The principal of each note was payable in three equal annual installments which commenced on January 3, 2006. Accrued and unpaid interest on the unpaid principal balance of each note was payable on the same dates as, and in addition to, the installments of principal. On January 3, 2008, we paid the third and last installment of the annual payments.

Contractual Obligations and Commitments

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

	Obligation Due in Period (in thousands of dollars)						
	2008 ⁽¹⁾	2009	2010	2011	2012	Thereafter	Total
Credit facility (secured)	\$ 1,689	\$ 3,378	\$ 3,378	\$ 2,816	\$ —	—	\$ 11,261
Interest on credit facility ⁽²⁾	234	355	203	63	—	—	855
Other long term debt	—	—	—	—	—	150	150
Facilities and office leases	155	288	211	160	168	114	1,096
Total	\$ 2,078	\$ 4,021	\$ 3,792	\$ 3,039	\$ 168	\$ 264	\$ 13,362

(1) For the six months remaining in 2008.

(2) Assumes an interest rate of 4.5%.

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 June 30, 2008, the off-balance sheet arrangements and transactions that we have entered into include operating lease 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

Please refer to and read “Special Note Regarding Forward-Looking Statements” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

NATURAL GAS SERVICES GROUP, INC.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Commodity Risk

Our commodity risk exposure is the pricing applicable to oil and natural gas production. Realized commodity prices received for such production are primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to natural gas. Depending on the market prices of oil and natural gas, companies exploring for oil and natural gas may cancel or curtail their drilling programs, thereby reducing demand for our equipment and services.

Financial Instruments and Debt Maturities

Our financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, bank borrowings, and notes. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the highly liquid nature of these short-term instruments. The fair value of the bank borrowings approximate the carrying amounts as of June 30, 2008, and were determined based upon interest rates currently available to us for borrowings with similar terms.

Customer Credit Risk

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

Interest Rate Risk

Our Loan Agreement provides for Prime Rate less 1/2 % for our term loan facility and Prime Rate less 1/4 % for our revolving line of credit facility. Consequently, our exposure to interest rates relate primarily to interest earned on short-term investments and paying above market rates, if such rates are below the fixed rate, on our bank borrowings. As of June 30, 2008, we were not using any derivatives to manage interest rate risk.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of certain members of Natural Gas Services Group, Inc.'s management, the chief executive officer and the vice-president of accounting evaluated the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of Natural Gas Services Group, Inc. as of the end of the period covered by this report. Based on this evaluation, the chief executive officer and vice-president of accounting concluded that, as of the end of the period covered by this report, Natural Gas Services Group, Inc.'s disclosure controls and procedures were effective to ensure that information required to be disclosed by Natural Gas Services Group, Inc. in the reports that it files under the Exchange Act is collected, processed and disclosed within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls.

There were no changes in Natural Gas Services Group, Inc.'s internal controls during the period covered by this report that have materially affected or are reasonably likely to materially affect Natural Gas Services Group, Inc.'s internal controls over financial reporting. In addition, to the knowledge of the chief executive officer and vice-president of accounting there were no changes in other factors that could significantly affect these controls subsequent to the date of the most recent evaluation made by the chief executive officer and the vice-president of accounting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On February 21, 2008, we received notice of a lawsuit filed against us on January 28, 2008 in Montmorency County, Michigan, 26th Circuit Court, Case No. 08-0001901-NZ, styled Dyanna Louise Williams, Plaintiff, v. Natural Gas Services Group, Inc. and Great Lakes Compression Inc., Defendants. In this lawsuit, plaintiff alleges breach of contract, breach of fiduciary duty and negligence. Plaintiff seeks damages in the amount of \$100,000 for lost insurance benefits and an unspecified amount of exemplary damages. As the basis for her claims, plaintiff generally alleges that she is the third party beneficiary of a life insurance policy obtained by her deceased ex-husband through Natural Gas Services Group's insurance program, and that as a result of Natural Gas Service Group's negligence and failure to use due care in processing an application for life insurance prior to her ex-husband's death, she was denied \$100,000 of life insurance proceeds. Plaintiff now seeks to recover \$100,000 from Natural Gas Services Group, plus an unspecified amount of exemplary damages. Due to the early stages of this lawsuit we are unable to accurately predict its outcome but we intend to file an answer denying all of plaintiff's claims and intend to vigorously contest the plaintiff's claims. We have not established a reserve with respect to plaintiff's claims.

From time to time, we are a party to various other legal proceedings in the ordinary course of our business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from these actions will not have a material adverse effect on our consolidated financial position, results of operations or cash flow. Except as discussed herein, we are not currently a party to any other 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, 2007 for a discussion of the risk associated with our company and industry.

NATURAL GAS SERVICES GROUP, INC.

Item 6. Exhibits

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

<u>Exhibit No.</u>	<u>Description</u>
3.1	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of the 10QSB 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) Executive Compensation Plans and Arrangements (Exhibits 10.1, 10.4, 10.5, 10.8, 10.9, 10.10 and 10.11).
10.1	1998 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K Report dated June 20, 2006 on file with the SEC June 26, 2006)
10.2	Lease Agreement, dated March 1, 2004, between the Registrant and the City of Midland, Texas (Incorporated by reference to Exhibit 10.19 of the Registrant's Form 10-QSB for the fiscal quarter ended June 30, 2004)
10.3	Securities Purchase Agreement, dated July 20, 2004, between the Registrant and CBarney Investments, Ltd. (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated July 20, 2004 and filed with the Securities and Exchange Commission on July 27, 2004)
10.4	Employment Agreement between Paul D. Hensley and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K Report, dated January 3, 2005, as filed with the Securities and Exchange Commission on January 7, 2005)
10.5	Promissory Note, dated January 3, 2005, in the original principal amount of \$2.1 million made by Natural Gas Services Group, Inc. payable to Paul D. Hensley (Incorporated by reference to Exhibit 10.26 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
10.6	Guaranty Agreement, dated as of January 3, 2005, made by Natural Gas Service Group, Inc., for the benefit of Western National Bank (Incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K, dated January 3, 2005, and filed with the Securities and Exchange Commission on January 7, 2005)
10.7	Guaranty Agreement, dated as of January 3, 2005, made by Screw Compression Systems, Inc., for the benefit of Western National Bank (Incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K, dated January 3, 2005, and filed with the Securities and Exchange Commission on January 7, 2005)
10.8	Employment Agreement between Stephen C. Taylor and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K Report, dated August 24, 2005, and filed with the Securities and Exchange Commission on August 30, 2005)
10.9	Employment Agreement between James R. Hazlett and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K Report, dated June 14, 2005, and filed with the Securities and Exchange Commission on November 14, 2005)
10.10	Promissory Note, dated January 3, 2005, in the original principal amount of \$300 thousand made by Natural Gas Services Group, Inc. payable to Jim Hazlett (Incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K Report, dated June 14, 2005, and filed with the Securities and Exchange Commission on November 14, 2005)

- 10.11 Retirement Agreement, dated December 14, 2005, between Wallace C. Sparkman and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K Report, dated December 14, 2005, and filed with the Securities and Exchange Commission on December 15, 2005)
- 10.12 Guaranty Agreement, dated as of January 3, 2006, and made by Screw Compression Systems, Inc. for the benefit of Western National Bank (Incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K, dated January 3, 2006, and filed with the Securities and Exchange Commission on January 6, 2006)
- 10.13 Seventh Amended and Restated Loan Agreement (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K dated October 26, 2006 and filed with the Securities and Exchange Commission on November 1, 2006)
- *10.14 Eighth Amended and Restated Loan Agreement between Natural Gas Services Group, Inc. and Western National Bank.
- *10.15 Revolving Line of Credit Promissory Note issued to Western National Bank.
- 14.0 Code of Ethics (Incorporated by reference to Exhibit 14.0 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
- 21.0 Subsidiaries (Incorporated by reference to Exhibit 21.0 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2004, and filed with the Securities and Exchange Commission on March 30, 2005)
- *31.1 Certifications
- *31.2 Certifications
- *32.1 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002
- *32.2 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

NATURAL GAS SERVICES GROUP, INC.

SIGNATURES

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

NATURAL GAS SERVICES GROUP, INC.

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

/s/ Earl R. Wait
Earl R. Wait
Principal Accounting Officer and Treasurer

August 7, 2008

**NATURAL GAS SERVICES GROUP, INC.
INDEX TO EXHIBITS**

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NATURAL GAS SERVICES GROUP, INC.

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- *32.2 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

Certifications

I, Stephen C. Taylor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Gas Services Group, Inc;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 7, 2008

Natural Gas Services Group, Inc.

By: /s/ Stephen C. Taylor

Stephen C. Taylor, Chairman of the
Board of Directors, Chief Executive Officer and President
(Principal Executive Officer)

Certifications

I, Earl R. Wait, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Gas Services Group, Inc;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 7, 2008

Natural Gas Services Group, Inc.

By: /s/ Earl R. Wait

Earl R. Wait, Vice President-Accounting
(Principal Accounting Officer) and Treasurer

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Natural Gas Services Group, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen C. Taylor, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2008

By: Natural Gas Services Group, Inc.
/s/ Stephen C. Taylor
Stephen C. Taylor
Chairman of the Board of Director,
President and Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Natural Gas Services Group, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Earl R. Wait, Vice President - Accounting (Principal Accounting Officer) of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2008

Natural Gas Services Group, Inc.
By: /s/ Earl R. Wait
Earl R. Wait
Vice President of Accounting (Principal
Accounting Officer) and Treasurer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

EIGHTH AMENDED AND RESTATED LOAN AGREEMENT

between

NATURAL GAS SERVICES GROUP, INC.

and

WESTERN NATIONAL BANK

Dated as of May 16, 2008

EIGHTH AMENDED AND RESTATED LOAN AGREEMENT

This Eighth Amended and Restated Loan Agreement, dated as of May 16, 2008, made and entered into by and between Natural Gas Services Group, Inc., a Colorado corporation (the "Borrower") and Western National Bank, a national banking association (the "Lender").

Recitals

WHEREAS, the Borrower, Screw Compression Systems, Inc., a Texas corporation, as Guarantor, and the Lender were parties to that certain Seventh Amended and Restated Loan Agreement, dated as of October 15, 2006 (said Seventh Amended and Restated Loan Agreement being referred to herein as the "Prior Loan Agreement"); and

WHEREAS, the Guarantor has merged into the Borrower, effective June 30, 2007, which merger was consented to by the Lender; and

WHEREAS, pursuant to the Prior Loan Agreement, the Borrower is now indebted to the Lender as evidenced by (a) that certain Multiple Advance Term Promissory Note dated October 15, 2006, in the original principal amount of \$16,891,105.87, as modified as of April 1, 2008, which note was given in consolidation and renewal, but not extinguishment, of the outstanding balances due on (i) that certain \$10,000,000.00 Multiple Advance Term Promissory Note dated March 14, 2005, as modified as of May 1, 2005, and further modified as of March 24, 2006, and further modified as of August 28, 2006; (ii) that certain Term Promissory Note dated January 3, 2005, in the original principal amount of \$8,000,000.00, as modified as of May 1, 2005, and further modified as of March 24, 2006, and further modified as of August 28, 2006; and (iii) that certain Advancing Line of Credit Promissory Note dated November 3, 2003, in the original principal amount of \$10,000,000.00, as modified as of December 15, 2004, and further modified as of May 1, 2005, and further modified as of March 24, 2006, and further modified as of August 28, 2006; and (b) that certain Revolving Line of Credit Promissory Note dated October 15, 2006, in the original principal amount of \$40,000,000.00, as modified as of April 1, 2008, which note was given in renewal, extension and modification, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note dated January 3, 2006, in the original principal amount of \$10,000,000.00, as modified effective March 24, 2006, and further modified on August 28, 2006, which note was given in renewal, extension and modification, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note dated January 3, 2005, in the original principal amount of \$2,000,000.00, as modified effective May 1, 2005, which note was given in renewal, extension and modification, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note, dated May 28, 2004, in the original principal amount of \$750,000.00, which note was given in renewal, extension and modification, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note dated March 26, 2003, as modified effective March 15, 2004, by and between Borrower and Lender, and is the Revolving Line of Credit Promissory Note referred to in the Second Amended and Restated Loan Agreement, dated as of November 3, 2003; and

WHEREAS, the Borrower has requested that the Lender renew, extend and modify the existing Revolving Line of Credit Promissory Note pursuant to this Eighth Amended and Restated Loan Agreement; and

WHEREAS, Lender is agreeable to the Borrower's requests but only upon and subject to the terms and provisions which are hereinafter specified.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

ARTICLE I Definitions

1.1 Defined Terms. In addition to the terms defined in the preamble and elsewhere in this Agreement, the following terms shall have the following meanings:

"Advance" means any loan disbursement to or on behalf of Borrower under any of the Loan Papers, including, without limitation, all amounts initially advanced under the Notes and all Subsequent Advances.

"Affiliate" means, as to any person, (a) any other person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such person or (b) any person who is a director, officer or partner (i) of such person, (ii) of any Subsidiary of such person or (iii) of any person described in the preceding clause (a). For purposes of this definition, "control" of a person means the power, directly or indirectly, either to (i) vote 10% or more of the securities having ordinary voting power for the election of directors of such person or (ii) direct or cause the direction of the management and policies of such person whether by contract or otherwise.

"Agreement" means this Eighth Amended and Restated Loan Agreement, as amended, restated, supplemented or otherwise modified from time to time.

"Bank Liens" means Liens in favor of the Lender, securing all or any portion of the Obligations, including, but not limited to, Rights in any Collateral created in favor of the Lender, whether by mortgage, pledge, hypothecation, assignment, transfer or other granting or creation of Liens.

"Borrowing Base" means at any date the amount set forth in line N in the Gross Assets Available for Borrowing Base Calculation, as determined pursuant to and in accordance with Section 2.3 and Exhibit D of this Agreement at such date.

"Business Day" means every day on which Lender is open for banking business.

"Change of Control" means the occurrence after the date of this Agreement of any circumstance or event in which (i) a person shall cause or bring about (through solicitation of proxies or otherwise) the removal or resignation of a majority of the members of the Board of Directors of the Borrower serving in such capacity on the date of this Agreement or a person causes or brings about (through solicitation of proxies or otherwise) an increase in the size of the existing Board of Directors of the Borrower such that the existing members of the Board of Directors thereafter represent a minority of the total number of persons comprising the entire Board; or (ii) a person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of any class of stock of the Borrower having thirty percent (30%) or more of the total number of votes that may be cast for the election of directors of the Borrower.

"Collateral" means any and all property, tangible or intangible, now existing or hereafter acquired, mortgaged, pledged, assigned or otherwise encumbered by the Borrower, the Subsidiaries or any other person to or for the benefit of the Lender pursuant to any of the Loan Papers now or hereafter executed and delivered by the Borrower or any of its Subsidiaries or any other person to secure the payment and performance of the Notes and obligations of the Borrower hereunder or under any of the other Loan Papers, as any such Loan Paper may be amended, supplemented or otherwise modified from time to time.

"Consolidated Cash Flow" means, with respect to any period of calculation thereof, the sum of (i) the consolidated pre-tax net income (or loss), less actual taxes paid, from continuing operations of the Borrower and its Subsidiaries during such period (excluding extraordinary income but including extraordinary expenses), plus (ii) depreciation, depletion, amortization and interest expenses deducted in determining consolidated net income (or loss) of the Borrower and its Subsidiaries during such period, all determined on a consolidated basis.

"Consolidated Current Ratio" means the ratio of (i) the sum of the current assets and restricted cash of the Borrower and its Subsidiaries to (ii) the sum of the current liabilities of the Borrower and its Subsidiaries, all determined on a consolidated basis.

"Consolidated Debt" means at a particular date the total Debt of the Borrower and its Subsidiaries, determined on a consolidated basis.

"Consolidated Fixed Charges" means, with respect to any period of calculation thereof, the sum of (a) the aggregate principal amount of all Debt of the Borrower and its Subsidiaries paid or due and payable during such period plus (b) all interest, including, without limitation, imputed interest in connection with Financing Leases, paid or accrued by the Borrower and its Subsidiaries during such period; provided, however, that any principal amount of Debt and any interest payable in one fiscal period and paid in another shall not be twice included in Consolidated Fixed Charges.

"Consolidated Intangible Assets" means those assets of the Borrower and its Subsidiaries, determined on a consolidated basis, that would be classified as intangible assets in accordance with generally accepted accounting principles, but in any event including, without limitation, (i) deferred assets, other than prepaid insurance and prepaid taxes; (ii) patents, copyrights, trademarks, tradenames, franchises, goodwill, experimental expenses and other similar assets which would be classified as intangible assets on a balance sheet of such person, prepared in accordance with generally accepted accounting principles; (iii) unamortized debt discount and expense, and unamortized organization and reorganization expense; and (iv) assets located, and notes and receivables due from obligors domiciled, outside of the United States.

"Consolidated Tangible Net Worth" means at a particular date (i) the sum of all amounts which would be included under stockholders' equity, on a consolidated balance sheet of the Borrower and its Subsidiaries, less (ii) the sum of the aggregate book value of Consolidated Intangible Assets, all determined on a consolidated basis.

"Contractual Obligation" means, as to any person, any provision of any security issued by such person or of any agreement, instrument or other undertaking to which such person is a party or by which it or any of its property is bound.

"Debt" means, for the Borrower and any Subsidiary, at any particular date, and without duplication, the sum at such date of (i) all indebtedness of such person for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices) for which such person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which such person otherwise assures a creditor against loss; (ii) all obligations of such person under leases which shall have been, or should have been, in accordance with generally accepted accounting principles, recorded as capital leases in respect of which such person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such person otherwise assures a creditor against loss, (iii) unfunded vested benefits under each ERISA Plan; (iv) all indebtedness and other liabilities secured by any Lien on any property owned by such person even though such person has not assumed or otherwise become liable for payment thereof; (v) all obligations of such person in respect of letters of credit, acceptances or similar obligations issued or created for the account of such person; and (vi) indebtedness of such person evidenced by a bond, debenture, note or similar instrument.

"Environmental Complaint" means any complaint, request for information, summons, order, demand, citation, notice or other written communication from any person or Governmental Authority with respect to the existence or alleged existence of a violation of any Requirement of Law or liability resulting from any air emission, water discharge, noise emission, asbestos, Hazardous Substance or any other environmental, health or safety matter at, upon, under or within any of the property owned, operated or used by the Borrower or any of its Subsidiaries.

"ERISA Plan" shall have the meaning given to such term as set forth in Section 4.15 of this Agreement.

"Event of Default" shall have the meaning given to such term as set forth in Section 7.1 of this Agreement.

"Financing Lease" means any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with generally accepted accounting principles to be capitalized on a balance sheet of the lessee.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Assets Available for Borrowing Base Calculation" shall have the meaning given to such term as set forth in Section 2.3(b) of this Agreement.

"Hazardous Substance" shall have the meaning given to such term as set forth in Section 4.20 of this Agreement.

"Highest Lawful Rate" means the maximum rate of interest (or, if the context so requires, an amount calculated at such rate) which Lender is allowed to contract for, charge, take, reserve or receive under applicable law after taking into account, to the extent required by applicable law, any and all relevant payments or charges under the Loan Papers.

"Lien" means any interest in property securing an obligation owed to, or a claim by, a person other than the owner of the property, whether such interest is based on the common law, statute or contract, including, but not limited to, a lien or security interest arising from any mortgage, encumbrance, pledge, hypothecation, assignment, deposit arrangement, or preference, priority or other security agreement (including, without limitation, any conditional sale or other title retention agreement or trust receipt or a lease, consignment or bailment for security purposes). The term "Lien" shall also include reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting property.

"Loan Papers" means (i) this Agreement, (ii) the Notes and (iii) any and all notes, mortgages, deeds of trust, security agreements, pledge agreements, financing statements, guaranties, and other agreements, documents, certificates, letters and instruments ever delivered or executed pursuant to, or in connection with, this Agreement, whether existing on the date hereof or thereafter created, as any of the same may hereafter be amended, supplemented, extended or restated.

"Material Adverse Effect" means any set of circumstances or events which (i) has, will or could reasonably be expected to have any material adverse effect upon the validity or enforceability of this Agreement or any of the other Loan Papers or the Rights or remedies of the Lender hereunder or thereunder; (ii) is or could reasonably be expected to be material and adverse to the financial condition, business, operations, property or prospects of the Borrower or any of its Subsidiaries; (iii) will or could reasonably be expected to impair the ability of the Borrower or any of its Subsidiaries to perform its respective obligations under the terms and conditions of any of the Loan Papers to which it is a party; or (iv) will or could reasonably be expected to cause an Event of Default.

"Material Agreement" of any person means any material written or oral agreement, contract, commitment, arrangement or understanding to which such person is a party, by which such person is directly or, to such person's knowledge, indirectly bound, or to which any asset of such person may be subject, which is not cancelable by such person upon 30 days or less notice without liability for further payment other than nominal penalties, excluding, however, such agreements, contracts, commitments, arrangements or understandings pursuant to which the subject matter thereof does not exceed \$50,000.00 in the aggregate.

"Multiple Advance Term Promissory Note" means the \$16,891,105.87 Multiple Advance Term Promissory Note described in Section 2.1(a) hereof, as the same may be renewed, extended, increased or otherwise modified from time to time.

"Note" or "Notes" means the individual or collective reference, as the context may require, to the Multiple Advance Term Promissory Note and the Revolving Line of Credit Promissory Note.

"Obligations" means the unpaid principal of and interest on the Notes and all other present and future indebtedness, obligations and liabilities of the Borrower and any of its Subsidiaries to the Lender, and all renewals, rearrangements and extensions thereof, or any part thereof, now or hereafter owed to Lender by the Borrower or any of its Subsidiaries, whether arising from, by virtue of, or pursuant to any Loan Paper, or otherwise, together with all interest accruing thereon and all costs, expenses and attorneys' fees incurred in the enforcement or collection thereof, and whether such indebtedness, obligations and liabilities are direct, indirect, fixed, contingent, liquidated, unliquidated, joint, several, or joint and several or were, prior to acquisition thereof by Lender, owed to some other person.

"Prime Rate" means that variable rate of interest per annum published in the Money Rates section of The Wall Street Journal as its "prime rate". If the Money Rates section of The Wall Street Journal does not have a rate designated by it as its "prime rate," then the "Prime Rate" shall be deemed to be the variable rate of interest per annum which is the general reference rate designated by the Lender as its "reference rate", "base rate" or other similar rate and which is comparable to the "Prime Rate" as described above. The Prime Rate is used by Lender as a general reference rate of interest, taking into account such factors as Lender may deem appropriate, it being understood that it is not necessarily the lowest or best rate actually charged to any customer and that Lender may make various commercial or other loans at rates of interest having no relationship to such rate.

"Real Estate Mortgage" means that certain Real Estate Mortgage dated January 3, 2005, from Screw Compression Systems, Inc., as Mortgagor, to Lender, in the form of Exhibit C hereto, as amended by First Amendment to Real Estate Mortgage dated September 26, 2005, in the form of Exhibit C-1 hereto and recorded in Rogers County, Oklahoma.

"Relevant Environmental Law" means any and all foreign, federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health, wildlife or the environment, as now or may at any time hereafter be in effect.

"Requirement of Law" means, as to any person, the certificate and articles of incorporation and bylaws, articles of organization, regulations or other organizational or governing documents of such person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such person or any of its property or to which such person or any of its property is subject.

"Revolving Line of Credit Promissory Note" means the \$40,000,000.00 Revolving Line of Credit Promissory Note described in Section 2.1(b) hereof, as the same may be renewed, extended, increased or otherwise modified from time to time.

"Rights" means rights, remedies, powers, privileges and benefits.

"Subsequent Advance" means any disbursement to or on behalf of Borrower after the initial Advance under the Multiple Advance Term Promissory Note or the Revolving Line of Credit Promissory Note pursuant to the provisions of Section 2.1 and Section 2.2 hereof.

"Subsidiary" means, as to the Borrower or any other designated person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors, managers or other governing body of such corporation, partnership, limited liability company or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly, through one or more intermediaries, or both, by the Borrower or such other designated person.

1.2 Accounting Principles. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement or any other Loan Paper, such determination, consolidation or computation shall be made in accordance with generally accepted accounting principles consistently applied, except where such principles are inconsistent with the requirements or definitions of this Agreement.

1.3 Directly or Indirectly. When any provision in this Agreement refers to action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable where the action in question is taken directly or indirectly.

1.4 Plural and Singular Forms. The definitions given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

1.5 References. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

ARTICLE II

Amount and Terms of Loans; Subordination

2.1 The Loans. Subject to and upon the terms and conditions and relying on the representations and warranties contained in this Agreement, Lender agrees to make loans to the Borrower as follows:

(a) \$16,891,105.87 Multiple Advance Term Note. Borrower has executed and delivered to the Lender the promissory note dated October 15, 2006, in the form of Exhibit A hereto, in the original principal amount of \$16,891,105.87, which Note represents the consolidation and refinancing, but not extinguishment, of the unpaid balances due on (i) the \$10,000,000.00 Multiple Advance Term Promissory Note dated March 14, 2005, and all renewals and modifications thereof; (ii) the \$8,000,000.00 Term Promissory Note dated January 3, 2005, and all renewals and modifications thereof; and (iii) the \$10,000,000.00 Advancing Line of Credit Promissory Note dated November 3, 2003, and all renewals and modifications thereof. Subject to and upon the terms and conditions of this Agreement and this Note, the Borrower may, at any time and from time to time, request one or more Advances and borrow (without the ability to reborrow amounts paid under this Note) under this Note; provided, however, the cumulative aggregate principal amount of all Advances under this Note shall never exceed \$16,891,105.87. This Note shall mature as provided therein and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in said Note. Principal and interest on this Note shall be payable in the manner and on the dates specified therein. This Note, including the loans evidenced thereby, is a multiple advance term loan facility and shall not be construed as a revolving line of credit as reborrowings are not permitted.

(b) Revolving Line of Credit Loan. Contemporaneously with the execution and delivery hereof, Borrower shall execute and deliver to the Lender the promissory note in the form of Exhibit B hereto, in the original principal amount of \$40,000,000.00, which note is given in renewal and extension, but not in extinguishment, of the outstanding balance of that certain Revolving Line of Credit Note dated May 28, 2004, in the original principal amount of \$750,000.00, as renewed, extended and modified as of January 3, 2005, and modified as of May 1, 2005, and renewed, extended and modified as of January 3, 2006, and further modified as of March 24, 2006, and further modified as of August 28, 2006, and further renewed and extended as of October 15, 2006, and modified as of April 1, 2008. The outstanding principal balance of said Note on the date of this Agreement is **\$0.00**. All amounts outstanding under the Revolving Line of Credit Promissory Note on the date of this Agreement shall be deemed to be Advances made under and pursuant to this Agreement, and the Revolving Line of Credit Promissory Note is and shall remain in full force and effect in accordance with the terms thereof, subject in all respects to the terms of this Agreement and the other Loan Papers. Subject to and upon the terms and conditions of this Agreement and the Revolving Line of Credit Promissory Note, the Borrower may request one or more Advances and borrow, prepay and reborrow at any time and from time to time under the Revolving Line of Credit Promissory Note; provided, however, the aggregate principal amount of all Advances outstanding at any one time under the Revolving Line of Credit Promissory Note shall never exceed the lesser of (i) \$40,000,000.00 or (ii) the amount available for Advance under the Revolving Line of Credit Promissory Note as determined in accordance with and as set forth in line Q in the Gross Assets Available for Borrowing Base Calculation. The Revolving Line of Credit Promissory Note shall mature on the date stated therein and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in said note. Principal and interest on the Revolving Line of Credit Promissory Note shall be payable in the manner and on the dates specified therein.

2.2 Procedure For Borrowings. (a) At the time of the initial Advance under the Multiple Advance Term Promissory Note or the Revolving Line of Credit Promissory Note, as the case may be, the conditions set forth in Section 3.1 of this Agreement shall have been satisfied and, with respect to each Subsequent Advance under the Multiple Advance Term Promissory Note or the Revolving Line of Credit Promissory Note, the conditions set forth in Section 3.2 hereof shall have been satisfied at the time of each such Subsequent Advance. At the time of each request for a Subsequent Advance under the Multiple Advance Term Promissory Note or the Revolving Line of Credit Promissory Note, the Borrower shall simultaneously furnish to the Lender a written notice of borrowing (dated as of the date of the request for such Subsequent Advance and otherwise being in substantially the form attached hereto as Exhibit E) confirming (i) the Note under which the Subsequent Advance has been requested, (ii) the amount of the requested Subsequent Advance, and (iii) the absence of any Event of Default at the date of such request. Each request for a Subsequent Advance under the Multiple Advance Term Promissory Note or the Revolving Line of Credit Promissory Note must be in the minimum amount of \$50,000.00 or the unadvanced portion of the Note under which the Subsequent Advance has been requested, whichever is less. Assuming the satisfaction of the conditions set forth in this Section 2.2, requests for Subsequent Advances under the Multiple Advance Term Note or the Revolving Line of Credit Promissory Note will be funded on the same Business Day that Lender receives Borrower's request for each such Subsequent Advance; provided that Borrower's request is received by the Lender prior to 12:00 noon on the date of any such request.

(b) The Lender shall maintain in accordance with its usual practice one or more accounts or other records evidencing the Obligations of the Borrower to the Lender resulting from each loan made by the Lender from time to time under the Notes, including the amounts of principal and interest payable and paid to the Lender from time to time under this Agreement and each respective Note. The entries made in such accounts or records of the Lender shall be prima facie evidence of the existence and amounts of the Obligations of the Borrower and its Subsidiaries therein recorded; provided, however, that the failure of the Lender to maintain any such accounts or records, or any error therein, shall not in any manner affect the absolute and unconditional obligation of the Borrower to repay (with applicable interest) all loans made to the Borrower in accordance with the terms of this Agreement and the Notes.

2.3 Borrowing Base. The Borrowing Base shall be determined as follows:

(a) Initial Borrowing Base. The initial Borrowing Base shall be **\$40,000,000.00** during the period from the date hereof to the date on which the Borrower receives notice of the first redetermination of the Borrowing Base by the Lender pursuant to Section 2.3(b) and thereafter the amount of the Borrowing Base shall be the Borrowing Base most recently determined pursuant to Section 2.3(b).

(b) Redeterminations of the Borrowing Base.

(i) No later than forty-five (45) days after the end of each month, the Borrower shall, at its own expense, furnish to the Bank a borrowing base calculation (the "Gross Assets Available for Borrowing Base Calculation") in the form attached hereto as Exhibit D, which shall be dated as of the end of each such month.

(ii) Within fifteen (15) days after it receives each borrowing base calculation, the Lender may in its sole discretion, but shall not be obligated to, redetermine the Borrowing Base, and shall notify the Borrower of the new Borrowing Base, if any; provided, however, if the Lender does not so notify the Borrower of a new Borrowing Base within such 15-day period, then the Borrowing Base set forth in the borrowing base calculation furnished to the Lender by the Borrower pursuant to Section 2.3(b)(i) shall be deemed to be the redetermined Borrowing Base until a new Borrowing Base is redetermined by the Lender and notice of such new Borrowing Base is given by the Lender to the Borrower. Each redetermination of the Borrowing Base shall be made by the Lender in the exercise of its sole discretion in accordance with the then current standards and practices of the Lender for similar loans, taking into account such factors as the Lender may deem appropriate, including, without limitation, the nature and extent of the Borrower's interest in the accounts and leases receivable and inventory upon which the Borrowing Base is then redetermined. The Lender may in its sole discretion discount the value of any property included in the redetermination of the Borrowing Base as set forth in a borrowing base calculation by the same factors utilized by it in discounting the value of comparable borrowing base assets in comparable transactions for comparable borrowers.

(iii) Each delivery by the Borrower to the Lender of a borrowing base calculation shall be deemed to constitute a representation and warranty by the Borrower to the Lender that the Borrower and its Subsidiaries have good and marketable title to the Collateral owned by each of them and described therein, and that such Collateral is not subject to any Lien other than Bank Liens and Liens permitted by Section 6.8.

2.4 Optional and Mandatory Prepayments. (a) The Borrower may at any time and from time to time prepay any one or all of the Notes, in whole or in part, without premium or penalty, upon prior or simultaneous irrevocable notice to the Lender, specifying the Note to be prepaid, the date and the amount of prepayment. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein. Partial prepayments shall be in an aggregate principal amount of \$50,000.00 or a whole multiple thereof, or shall equal the aggregate outstanding balance of the Note being prepaid.

(b) If the aggregate unpaid principal amount of the Revolving Line of Credit Promissory Note shall at any time exceed the Borrowing Base at such time, the Lender shall so notify the Borrower, and the Borrower shall, within fifteen (15) Business Days after such notification, prepay the principal of the Revolving Line of Credit Promissory Note in an aggregate amount at least equal to such excess, together with accrued interest on the amount prepaid to the date of such prepayment.

2.5 Payment Procedure. Each payment or prepayment on the Notes must be made at the principal office of Lender in funds which are or will be available for immediate use by Lender on or before 12:00 noon Midland, Texas time on the day such payment is due or such prepayment is made. In any case where a payment of principal of, or interest on, the Notes is due on a day which is not a Business Day, the Borrower shall be entitled to delay such payment until the next succeeding Business Day, but interest shall continue to accrue until the payment is in fact made.

2.6 Order of Application. Except as otherwise provided in the Loan Papers, all payments and prepayments on the Obligations, including proceeds from the exercise of any Rights of Lender under the Loan Papers, shall be applied to the Obligations in the following order: (i) first, to reasonable expenses for which Lender shall not have been reimbursed under the Loan Papers and then to all amounts to which Lender is entitled to indemnification under the Loan Papers; (ii) to the accrued interest on the Note being paid or prepaid; (iii) to the principal of the Note being paid or prepaid and, with regard to the Revolving Line of Credit Promissory Note and the Multiple Advance Term Promissory Note, applied upon installments of most remote maturity; and (iv) to the remaining Obligations.

ARTICLE III
Conditions Precedent

3.1 Conditions to Initial Advance. The obligation of Lender to make Advances under the Multiple Advance Term Promissory Note and the Revolving Line of Credit Promissory Note is subject to the satisfaction and fulfillment of each of the following conditions precedent which shall have occurred on or before the date hereof, or simultaneously with the closing of the transactions contemplated by this Agreement, unless compliance therewith shall have been waived in writing by Lender:

(a) There shall have been duly executed, where appropriate, and delivered by the Borrower to Lender (and/or any other requisite party thereto) the following:

- (1) this Agreement;
- (2) the Notes;
- (3) the Security Agreement in substantially the form attached hereto as Exhibit F;

(4) a certificate of account status (good standing) and a certificate of existence for Borrower in the jurisdiction under the laws of which Borrower is organized and in each jurisdiction wherein Borrower's operations, transaction of business or ownership of property make qualification as a foreign corporation necessary;

(5) an Officer's Certificate in substantially the form attached hereto as Exhibit G, which shall contain the names and signatures of the officers of the Borrower authorized to execute Loan Papers and which shall certify to the truth, correctness and completeness of the following exhibits attached thereto: (a) a copy of resolutions duly adopted by the Board of Directors of the Borrower and in full force and effect at the time this Agreement is entered into, covering the matters described in subparagraph (d) below of this Section 3.1, (b) a copy of the charter documents of Borrower and all amendments thereto, certified by the appropriate official of Borrower's state of organization, and (c) a copy of the bylaws of Borrower, and certifying as to such other matters as Lender may reasonably require; and

- (6) such other documents or instruments as Lender may reasonably require.

(b) All requirements of notice to perfect each Bank Lien shall have been accomplished or arrangements made therefor to the satisfaction of Lender and its counsel;

(c) The Borrower shall have approved the execution, delivery and performance of the Loan Papers to which it is a party by resolutions satisfactory to Lender and its counsel, authorizing (i) the execution, delivery and performance of this Agreement, the Notes and the other Loan Papers to which the Borrower is a party, (ii) the borrowings contemplated hereunder and (iii) the granting by it of the pledge and security interests pursuant to the Loan Papers to which the Borrower is a party and appropriate certificates as to such actions, showing the parties authorized to execute the Loan Papers and all items required herein, shall have been delivered to the Lender;

(d) There shall exist no Event of Default hereunder, nor shall any events or circumstances have occurred, and not theretofore been cured, which with notice or lapse of time or both, would constitute an Event of Default hereunder;

(e) The representations and warranties of the Borrower contained in Article IV shall be true and correct in all material respects;

(f) No suit, action or other proceeding by a third party or a Governmental Authority shall be pending or threatened which relates to this Agreement or the transactions contemplated hereby; and

3.2 Conditions to Subsequent Advances. The obligation of the Lender to make any Subsequent Advance under the Multiple Advance Term Promissory Note and the Revolving Line of Credit Promissory Note requested to be made by the Borrower on any date is subject to the satisfaction of the following conditions precedent:

(a) Each of the representations and warranties made by the Borrower in or pursuant to the Loan Papers shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(b) No Event of Default shall have occurred and be continuing on such date or after giving effect to the Subsequent Advance requested to be made on such date.

(c) Notwithstanding Section 2.4(b), after giving effect to the Advances under the Revolving Line of Credit Promissory Note requested by Borrower to be made on any date, the aggregate principal amount of the Revolving Line of Credit Promissory Note then outstanding shall not exceed the lesser of (i) \$40,000,000.00 or (ii) the amount available for Advance under the Revolving Line of Credit Note, as determined in accordance with and as set forth in line Q of the Gross Assets Available for Borrowing Base Calculation.

(d) After giving effect to the Advances under the Multiple Advance Term Promissory Note requested by Borrower to be made on any date, the cumulative aggregate principal amount of all Advances under the Multiple Advance Term Promissory Note shall not exceed \$16,891,105.87.

(e) No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority shall be pending or, to the knowledge of the Borrower, threatened by or against the Borrower or the Lender with respect to this Agreement or any of the other Loan Papers or the transactions contemplated by this Agreement or any of the other Loan Papers.

(f) The Lender shall have received all Gross Assets Available for Borrowing Base Calculations required to be delivered by Borrower pursuant to Section 2.3(b)(i).

Each borrowing by the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date thereof that the conditions contained in this Section 3.2 have been satisfied.

3.3 Corporate Proceedings and Documents. In addition to the conditions precedent set forth in Section 3.1 and Section 3.2, all corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement and the other Loan Papers shall be satisfactory in form, substance and date to the Lender, and Lender shall have received such other documents and legal opinions in respect of any aspect or consequence of the transactions contemplated hereby or thereby as it shall reasonably request.

ARTICLE IV
Representations and Warranties

As a material inducement to Lender to enter into this Agreement, the Borrower hereby represents and warrants to the Lender that:

4.1 Organization, Existence and Good Standing; Compliance With Law. The Borrower and each of its Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of its state of organization, (b) is duly qualified, in good standing and authorized to do business in each jurisdiction where the character of its operations, transaction of business or ownership of property makes such qualification necessary, except where the absence of qualification, good standing or authorization would not have a Material Adverse Effect and (c) is in compliance with all Requirements of Law, except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.2 Authorization. Each of the Borrower and its Subsidiaries has the corporate power and authority, and the legal right, to make, deliver and perform the Loan Papers to which it is a party and, in the case of the Borrower, to borrow hereunder, and in the case of the Subsidiaries, to guarantee the obligations of the Borrower hereunder, and each of the Borrower and its Subsidiaries has taken all necessary corporate action to authorize the borrowings and other transactions on the terms and conditions of each Loan Paper to which it is a party, the grant of the Bank Liens on the Collateral pursuant to the Loan Papers to which it is a party and the execution, delivery and performance of the Loan Papers to which it is a party.

4.3 Enforceable Obligations. This Agreement and each of the other Loan Papers to which the Borrower or any of its Subsidiaries is a party have been duly executed and delivered on behalf of the Borrower or its Subsidiaries, as the case may be. This Agreement constitutes and the other Loan Papers to which the Borrower or any of its Subsidiaries is a party, when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower and any of its Subsidiaries, as the case may be, enforceable against the Borrower and any of its Subsidiaries, as the case may be, in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, fraudulent transfer or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

4.4 No Conflicts or Consents. The execution, delivery and performance of this Agreement, the Notes and the other Loan Papers, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or Contractual Obligation of the Borrower or any of its Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties, assets or revenues pursuant to any such Requirement of Law or Contractual Obligation, except as contemplated by the Loan Papers. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other person is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes or the other Loan Papers.

4.5 Financial Statements. The unaudited consolidated financial statements of Natural Gas Services Group, Inc., dated February 29, 2008, which have been delivered to Lender, are complete and correct as they relate to the Borrower, have been prepared in accordance with generally accepted accounting principles, consistently applied, and present fairly the unaudited consolidated financial condition and results of operations of the Borrower as of the dates and for the periods stated (subject only to normal year-end adjustments with respect to such unaudited interim statements). During the period from February 29, 2008, to and including the date hereof, no change has occurred in the condition, financial or otherwise, of the Borrower which could reasonably be expected to result in a Material Adverse Effect, and there has been no sale, transfer or other disposition by the Borrower since October 15, 2006, of any material part of its business or property and no purchase or other acquisition of any business or property material in relation to the consolidated condition, financial or otherwise, of the Borrower other than the merger of Screw Compression Systems, Inc., formerly the Guarantor, into the Borrower, effective as of June 30, 2007, which merger was consented to by Lender.

4.6 Other Obligations. As of the date hereof, neither Borrower nor any Subsidiary has any outstanding Debt or other material liabilities, direct or indirect, absolute or contingent, which is, in the aggregate, material to the Borrower and its Subsidiaries and not shown in the financial statements referred to in Section 4.5 hereof. Borrower is not aware of any fact, circumstance, act, condition or development which will have or which threatens to have any Material Adverse Effect.

4.7 Investments, Advances and Guaranties. At the date of this Agreement, Borrower has not made investments in, advances to or guaranties of the obligations of any person, except as reflected in the financial statements referred to in Section 4.5 hereof.

4.8 Litigation. There is no litigation, legal, administrative or arbitral proceeding, investigation or other action of any nature pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower which involves the possibility of any judgment or liability not fully covered by indemnity agreements or insurance, and which would have a Material Adverse Effect.

4.9 No Burdensome Restrictions. No unusual or unduly burdensome restriction, restraint or hazard exists under or by reason of any Contractual Obligation or, to the best of Borrower's knowledge, any Requirement of Law.

4.10 Taxes. All tax returns required to be filed by the Borrower and its Subsidiaries with all Governmental Authorities have been filed, and all taxes, assessments, fees and other governmental charges imposed upon Borrower and its Subsidiaries or upon any of their respective property, income or franchises which are due and payable, have been paid (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles have been provided on the consolidated financial statements of the Borrower); and no tax lien has been filed and, to the knowledge of Borrower, no claim is being asserted with respect to any such tax, fee or other charge.

4.11 Purpose of Loan. The proceeds of the loans made pursuant to Section 2.1 and evidenced by the Notes have been or will be used by the Borrower for the following purposes:

(a) with respect to loans made pursuant to and evidenced by the Multiple Advance Term Promissory Note, for construction of natural gas compressors; and

(b) with respect to loans made pursuant to and evidenced by the Revolving Line of Credit Promissory Note, for general working capital purposes, construction of natural gas compressors, and potential acquisitions.

4.12 Title to Properties; Liens. Each of the Borrower and its Subsidiaries have good record and defensible title to, or a valid leasehold interest in, all its real property, and good title to all its other properties and, except for Liens of the type permitted under Section 6.8 of this Agreement, there are no Liens on any properties or assets of the Borrower or any of its Subsidiaries.

4.13 Insurance. The Borrower and its Subsidiaries maintain with financially sound and reputable insurance companies insurance in at least such amounts and against at least such risks (but including in any event public liability) as are usually insured against in the same general area by companies engaged in the same or a similar business and such insurance is otherwise in compliance with the Loan Papers.

4.14 No Default. Neither the Borrower nor any of its Subsidiaries is in default under or with respect to any of its Contractual Obligations in any respect, other than defaults which could not have a Material Adverse Effect. No Event of Default has occurred and is continuing.

4.15 ERISA Plans. Borrower does not have any plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA Plan").

4.16 Principal Business Office and Location of Records. The Borrower's principal place of business and chief executive offices are located at 508 West Wall, Suite 550, Midland, Texas 79701, and the records of the Borrower and each of its Subsidiaries concerning its ownership of assets, business and operations are located at such address.

4.17 Licenses, Permits and Franchises, etc. The Borrower and each of its Subsidiaries owns, or is licensed to use, all permits, know-how, processes, technology, franchises, patents, patent rights, trade names, trademarks, trademark rights and copyrights which are necessary or required for the ownership or operation of its properties and the conduct of its business. Borrower is not aware of any fact or condition that might cause any of such rights not to be renewed in due course.

4.18 Subsidiaries. As of the date hereof, there are no Subsidiaries of the Borrower.

4.19 No Material Omissions or Misstatements. No information, exhibit or report furnished to Lender by the Borrower in connection with the negotiation of this Agreement contains any material misstatement of fact or omits to state a material fact or any fact necessary to make the statements contained therein not misleading. Without limiting the generality of the foregoing, there are no material facts relating to the Loan Papers, the Collateral or the financial condition, assets, liabilities, results of operations or business of the Borrower or any of its Subsidiaries which could, collectively or individually, have a Material Adverse Effect and which have not been disclosed in writing to Lender as an exhibit to this Agreement or in the financial statements of the Borrower referred to in Section 4.5 of this Agreement.

4.20 Environmental Matters.

(a) No Environmental Complaint has been issued or filed, no penalty has been assessed and, to the knowledge of Borrower, no investigation or review is pending or threatened by any Governmental Authority or other person (i) with respect to any alleged violation of any law, ordinance, rule, regulation or order of any Governmental Authority in connection with the property, operations or conduct of the business of the Borrower or any of its Subsidiaries, or (ii) with respect to any alleged failure to have any permit, certificate, license, approval, requisition or authorization required in connection with the property, operations or conduct of the business of the Borrower or any of its Subsidiaries or (iii) with respect to any generation, treatment, storage, recycling, transportation or disposal or release, all as defined in 42 USC ' 9601(22) ("Release") (other than Releases in compliance with Relevant Environmental Laws or permits issued thereunder), of any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, solid waste, contaminants, polychlorinated biphenyls, paint containing lead, urea, formaldehyde, foam insulation, and discharge of sewage or effluent, whether or not regulated under federal, state or local environmental statutes, ordinances, rules, regulations or orders ("Hazardous Substance") generated by the operations or business, or located at any property, of the Borrower or any of its Subsidiaries.

(b) Except in substantial compliance with Relevant Environmental Laws and permits issued thereunder (i) neither the Borrower nor its Subsidiaries, nor the businesses conducted by the Borrower and its Subsidiaries, have placed, held, located or disposed of any Hazardous Substance on, under or at any property now or previously owned or leased by the Borrower or any of its Subsidiaries, and none of such properties has been used (by the Borrower or any of its Subsidiaries) as a dump site or storage (whether permanent or temporary) site for any Hazardous Substance; (ii) no polychlorinated biphenyls, urea or formaldehyde is or has been present at any property now or previously owned or leased by the Borrower or any of its Subsidiaries; (iii) no asbestos is or has been present at any property now or previously owned or leased by the Borrower or any of its Subsidiaries; (iv) there are no underground storage tanks which have been used to store or have contained any Hazardous Substance, active or abandoned, at any property now or previously owned or leased by the Borrower or any of its Subsidiaries; (v) no Hazardous Substance has been released at, on or under any property previously owned or leased by the Borrower or any of its Subsidiaries; and (vi) no Hazardous Substance has been released or is present, in a reportable or threshold quantity, where such a quantity has been established by statute, ordinance, rule, regulation or order, at, on or under any property now or previously owned by the Borrower or any of its Subsidiaries.

(c) The Borrower and its Subsidiaries have not transported or arranged for the transportation (directly or indirectly) of any Hazardous Substance to any location which is listed or proposed for listing under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 ("CERCLA"), the Comprehensive Environmental Response, Compensation and Liability Information System ("CERCLIS") or on any similar state list or which is the subject of federal, state or local enforcement actions or other investigations.

(d) There are no environmental Liens on any property owned or leased by the Borrower or any of its Subsidiaries, and no actions by any Governmental Authority have been taken or are in the process of being taken which could subject any of such properties to such Liens.

(e) Prior to the date hereof, the Borrower has provided to Lender all environmental investigations, studies, audits, tests, reviews or other analyses conducted by or which are in the possession of the Borrower or any of its Subsidiaries in relation to any property or facility now or previously owned or leased by the Borrower or any of its Subsidiaries.

4.21 Investment Company Act. Neither the Borrower nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

4.22 Public Utility Holding Company Act. The Borrower is not a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

4.23 Federal Regulations. No part of the proceeds of any loan will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation G or Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. If requested by the Bank, the Borrower will furnish to the Bank a statement to the foregoing effect in conformity with the requirements of FR Form G-1 or FR Form U-1 referred to in said Regulation G or Regulation U, as the case may be.

4.24 Casualties: Taking of Properties. Since the dates of the financial statements of the Borrower and its Subsidiaries delivered to the Lender as described in Section 4.5, neither the business nor the assets or properties of the Borrower or any Subsidiary have been affected (to the extent it is reasonably likely to cause a Material Adverse Effect), as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of property or cancellation of contracts, permits or concessions by and domestic or foreign government or any agency thereof, riot, activities of armed forces or acts of God or of any public enemy.

4.25 Not A Utility. Neither the Borrower nor any of its Subsidiaries is an entity engaged in the State of Texas in the (i) generation, transmission or distribution and sale of electric power; (ii) transportation, distribution and sale through a local distribution system of natural or other gas for domestic, commercial, industrial or other use; (iii) provision of telephone or telegraph service to others; (iv) production, transmission or distribution and sale of steam or water; (v) operation of a railroad; or (vii) provision of sewer service to others.

ARTICLE V Affirmative Covenants

As a material inducement to Lender to enter into this Agreement, the Borrower hereby covenants and agrees that from the date hereof until payment in full of the Obligations, the Borrower shall and shall cause each of its Subsidiaries to:

5.1 Financial Statements and Other Information. Promptly furnish to Lender copies of (i) such information regarding its business and affairs and financial condition as Lender may reasonably request, and (ii) without request, the following:

(a) as soon as available, but in any event not later than ninety (90) days after the end of each fiscal year of the Borrower, a copy of the audited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such year and the related audited consolidated statements of income and changes in cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, by Hein + Associates LLP or other independent certified public accounting firm of recognized standing acceptable to the Lender;

(b) as soon as available, but in any event not later than forty-five (45) days after the end of each month, the unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such month and the related unaudited consolidated statements of income and changes in cash flows of the Borrower and its consolidated Subsidiaries for such month and for the period from the beginning of the most recent fiscal year to the end of such month, certified by the principal financial officer of the Borrower (subject to normal year-end audit adjustments);

(c) as soon as available, but in any event not later than forty-five (45) days after the end of each month, calculations of the Consolidated Current Ratio, Consolidated Tangible Net Worth, Debt Service Ratio and Consolidated Debt to Consolidated Tangible Net Worth Ratio of the Borrower for the periods required as set forth in Section 6.1 of this Agreement;

(d) as soon as available, but in any event not later than forty-five (45) days after the end of each month, a list of all accounts payable and accounts receivable of the Borrower and its consolidated Subsidiaries, and an aging of such accounts on the basis of 30-60-90 and over 90 days from date of invoice;

(e) promptly upon their becoming available, but in any event not later than five (5) days after the same are sent, copies of all financial statements, reports, notices and proxy statements sent or made available generally by the Borrower to its shareholders, of all regular and periodic reports and all private placement memorandums and all registration statements and prospectuses, if any, filed by the Borrower with any securities exchange or with the Securities and Exchange Commission; and all press releases and other statements made available generally by the Borrower to the public concerning material developments in the business of the Borrower;

(f) immediately after becoming aware of the existence of, or any material change in the status of, any Environmental Complaint or any litigation which could have a Material Adverse Effect if determined adversely against the Borrower or any of its Subsidiaries, a written communication to Lender of such matter;

(g) immediately upon becoming aware of an Event of Default or the existence of any condition or event which constitutes, or with notice or lapse of time, or both, would constitute an Event of Default, a verbal notification to Lender specifying the nature and period of existence thereof and what action the Borrower is taking or proposes to take with respect thereto and, immediately thereafter, a written confirmation to Lender of such matters;

(h) immediately after becoming aware that any person has given notice or taken any action with respect to a claimed default under any indenture, mortgage, deed of trust, promissory note, loan agreement, note agreement, joint venture agreement or any other Material Agreement or other undertaking to which the Borrower or any Subsidiary is a party, a verbal notification to Lender specifying the notice given or action taken by such person and the nature of the claimed default and what action the Borrower is taking or proposes to take with respect thereto and, immediately thereafter, a written communication to Lender of such matters;

(i) within forty-five (45) days after the end of each month, the Gross Assets Available for Borrowing Base Calculation required by Section 2.3(b)(i) of this Agreement;

(j) within forty-five (45) days after the end of each month, a compliance certificate in the form attached hereto as Exhibit L, which shall be signed by the chief executive officer or principal financial officer of the Borrower;

(k) as soon as available, but in any event not later than forty-five (45) days after the end of each calendar quarter, a report, in detail reasonably satisfactory to Lender, (i) setting forth, by owner, the unit number, serial number or other identifying number of each gas compressor owned by the Borrower and its Subsidiaries, (ii) stating whether or not each compressor identified in the report has been leased or rented to any person and, if so, a brief description of the lease, including, without limitation, the date of the lease and the name of the lessee, (iii) describing the specific location of each gas compressor, (iv) attaching copies of any compressor lease or rental agreement entered into during the prior month and (v) including such other information as Lender shall reasonably require; and

(l) notify Lender of the cancellation of leases in excess of \$500,000.00 in the aggregate in a twelve (12) month period.

5.2 Taxes; Other Claims. Pay and discharge all taxes, assessments and governmental charges or levies imposed upon the Borrower and its Subsidiaries, or upon or in respect of all or any part of the income, property or business of the Borrower and its Subsidiaries, all trade accounts payable in accordance with usual and customary business terms, and all claims for work, labor or materials, which, if unpaid, might become a Lien or charge upon any or all of the property of the Borrower or any of its Subsidiaries; provided, however, the Borrower and its Subsidiaries shall not be required to pay any such tax, assessment, charge, levy, account payable or claim if (i) the validity, applicability or amount thereof is currently being contested in good faith by appropriate actions or proceedings diligently conducted which will prevent the forfeiture or sale of any property of the Borrower and its Subsidiaries or any material interference with the use thereof by the Borrower or its Subsidiaries, and (ii) the Borrower shall have set aside on its consolidated financial statements reserves therefor deemed adequate under generally accepted accounting principles.

5.3 Compliance and Maintenance. (i) Maintain its corporate existence, rights and franchises; (ii) observe and comply with all Requirements of Law, including, without limitation, Relevant Environmental Laws; and (iii) maintain the Collateral and all other equipment, properties and assets (and any properties, equipment and assets leased by or consigned to it or held under title retention or conditional sales contracts) in good and workable condition at all times and make all repairs, replacements, additions, betterments and improvements to its properties, equipment and assets as are needful and proper so that the business carried on in connection therewith may be conducted properly and efficiently at all times.

5.4 Maintenance of Insurance. Maintain with financially sound and reputable insurers, insurance with respect to its properties and business against such liabilities, casualties, risks and contingencies and in such types and amounts as is customarily carried by companies engaged in the same or similar businesses and similarly situated. From time to time, upon request by Lender, the Borrower will furnish Lender with copies of certificates, binders and policies necessary to give Lender reasonable assurance of the existence of such coverage. Borrower agrees to promptly notify Lender of any termination or other material change in Borrower's insurance coverage and, if requested by Lender, to provide Lender with all information about the renewal of each policy at least 15 days prior to the expiration thereof. In the case of any fire, accident or other casualty causing loss or damage to any property of Borrower, the proceeds of such policies in excess of \$50,000.00 shall, at Borrower's option, be used to (i) replace the lost or damaged property with similar property having a value at least equivalent to the lost or damaged property, or (ii) prepay the Notes to the extent of such proceeds.

5.5 Reimbursement of Fees and Expenses. Pay all reasonable fees and expenses incurred by Lender and its designated representatives in connection with this Agreement, all renewals hereof, the other Loan Papers or other transactions pursuant hereto or to the other Loan Papers, whether the services provided hereunder or thereunder are provided directly by Lender or by a third party selected by Lender, as well as all costs of filing and recordation, all reasonable legal and accounting fees, all costs associated with enforcing any of Lender's Rights under the Loan Papers, including, without limitation, costs of repossessing, storing, transporting, preserving and insuring any Collateral that Borrower or any of its Subsidiaries may pledge to Lender, all court costs associated with enforcing or defending Lender's Rights against the Borrower, its Subsidiaries or any third party challenging said Rights and any other cost or expense incurred by Lender or its designated representatives in connection herewith or with the other Loan Papers, together with interest at a rate per annum two percent (2%) above the Prime Rate on each such amount commencing on the date notice of such expenditure is given to the Borrower by Lender until the date it is repaid to Lender.

5.6 Indemnification. Indemnify, save and hold harmless the Lender and its Affiliates, directors, officers, agents, attorneys and employees (collectively, the Indemnitees) from and against: (a) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any person (other than the Borrower) if the claim, demand, action or cause of action directly or indirectly relates to a claim, demand, action or cause of action that such person asserts or may assert against the Borrower, any Affiliate of the Borrower or any officer, director or shareholder of the Borrower; (b) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any person (other than the Borrower) if the claim, demand, action or cause of action arises out of or relates to the loans made by Lender to the Borrower under the Notes and this Agreement, the use or contemplated use of proceeds of such loans or the relationship of the Borrower and the Lender under this Agreement; (c) any administrative or investigative proceeding by any Governmental Authority arising out of or related to a claim, demand, action or cause of action described in clauses (a) or (b) above; and (d) any and all liabilities, losses, costs or expenses (including reasonable attorneys' fees and disbursements) that any Indemnitee suffers or incurs as a result of any of the foregoing; provided, that no Indemnitee shall be entitled to indemnification for any liability, loss, cost or expense caused by its own gross negligence or willful misconduct. If any claim, demand, action or cause of action is asserted against any Indemnitee and such Indemnitee intends to claim indemnification from the Borrower under this Section 5.6, such Indemnitee shall promptly notify the Borrower, but the failure to so promptly notify the Borrower shall not affect the obligations of the Borrower under this Section 5.6 unless such failure materially prejudices the Borrower's right to participate, or the Borrower's rights, if any, in the contest of such claim, demand, action or cause of action, as hereinafter provided. Each Indemnitee may, and if requested by the Borrower in writing shall, in good faith contest the validity, applicability and amount of such claim, demand, action or cause of action with counsel selected by such Indemnitee and reasonably acceptable to the Borrower, and shall permit the Borrower to participate in such contest. Any Indemnitee that proposes to settle or compromise any claim or proceeding for which the Borrower may be liable for payment of indemnity hereunder shall give the Borrower written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding and shall obtain the Borrower's prior written consent, which consent shall not be unreasonably withheld. In connection with any claim, demand, action or cause of action covered by this Section 5.6 against more than one Indemnitee, all such Indemnitees shall be represented by the same legal counsel selected by the Indemnitees and reasonably acceptable to the Borrower; provided, that if such legal counsel determines in good faith and advises the Borrower in writing that representing all such Indemnitees would or could result in a conflict of interest under legal requirements or ethical principles applicable to such legal counsel or that a defense or counterclaim is available to an Indemnitee that is not available to all such Indemnitees, then to the extent reasonably necessary to avoid such a conflict of interest or to permit unqualified assertion of such a defense or counterclaim, each Indemnitee shall be entitled to separate representation by legal counsel selected by that Indemnitee and reasonably acceptable to the Borrower. Any obligation or liability of the Borrower to any Indemnitee under this Section 5.6 shall survive the expiration or termination of this Agreement and the repayment of the Loans and the payment of all other Obligations owing to the Lender for the statute of limitations period applicable to such claim or contest.

5.7 Further Assurances. Use its best efforts to cure any defects in the execution and delivery of any of the Loan Papers to which it is a party and in any other instrument or document referred to or mentioned herein, and immediately execute and deliver to Lender, upon Lender's request, all such other and further instruments as may be required or desired by Lender from time to time in compliance with or accomplishment of the covenants and agreements of the Borrower made herein and in the other Loan Papers.

5.8 Inspection and Visitation. Permit any officer, employee, agent or representative of Lender to visit and inspect any of the properties and assets of the Borrower and its Subsidiaries, examine all of its books, records and accounts, and take copies and extracts therefrom, all at such reasonable times and during normal business hours as Lender may request and, further, the Borrower shall allow and does hereby grant Lender the right to contact any employees, associates, Affiliates, officers, accountants and auditors of Borrower and its Subsidiaries as Lender may desire, and upon the occurrence and during the continuance of an Event of Default, Lender shall have the right to contact the customers of Borrower and its Subsidiaries.

5.9 Compliance With Laws. Comply with all Requirements of Law, the violation of which could have a Material Adverse Effect.

5.10 Accounts and Records. Keep books of record and account in which full, true and correct entries will be made of all dealings or transactions in relation to its business and activities, in accordance with generally accepted accounting principles consistently applied, except only for changes in accounting principles or practices with which the Borrower's independent public accountants concur.

5.11 Environmental Complaints. Promptly give notice to Lender (a) of any Environmental Complaint affecting the Borrower or any of its Subsidiaries, any property owned, operated or used by the Borrower or any of its Subsidiaries, or any part thereof or the operations of the Borrower or any of its Subsidiaries, or any other person on or in connection with such property or any part thereof (including receipt by the Borrower or any of its Subsidiaries of any notice of (i) the happening of any event involving the use, spill, release, leak, seepage, discharge or clean-up of any Hazardous Substance or (ii) any complaint, order, citation or notice with regard to air emissions, water discharges, or any other environmental, health or safety matter affecting the Borrower or any of its Subsidiaries from any person or entity (including without limitation the United States Environmental Protection Agency)), and (b) of any notice from any person of (i) any violation or alleged violation of any Relevant Environmental Law relating to any such property or any part thereof or any activity at any time conducted on any such property, (ii) the occurrence of any release, spill or discharge in a quantity that is reportable under any Relevant Environmental Law or (iii) the commencement of any clean-up pursuant to or in accordance with any Relevant Environmental Law of any Hazardous Substance on or about any such property or any part thereof.

ARTICLE VI Negative Covenants

As a material inducement to Lender to enter into this Agreement, the Borrower covenants and agrees that from the date hereof until payment in full of the Obligations, the Borrower shall not, and (except with respect to Section 6.1) shall not permit any of its Subsidiaries to, directly or indirectly:

6.1 Financial Covenants.

(a) Consolidated Current Ratio. Permit the Consolidated Current Ratio, as defined herein and calculated pursuant to Exhibit H hereto, to be less than **1.6 to 1.0** as of May 31, 2008, and as of the end of each month thereafter.

(b) Consolidated Tangible Net Worth. Permit the Consolidated Tangible Net Worth, as defined herein and calculated pursuant to Exhibit I hereto, to be less than **\$85,000,000.00** as of May 31, 2008, and as of the end of each month thereafter.

(c) Debt Service Ratio. Permit the ratio of (i) Consolidated Cash Flow to (ii) Consolidated Fixed Charges, as such terms are defined herein and as calculated pursuant to Exhibit J hereto, to be less than **1.50 to 1.00** as of the end of each fiscal quarter of the Borrower.

(d) Consolidated Debt to Consolidated Tangible Net Worth Ratio. Permit the ratio of (i) Consolidated Debt to (ii) Consolidated Tangible Net Worth, as such terms are defined herein and calculated pursuant to Exhibit K hereof, to be more than **2.0 to 1.00** as of May 31, 2008, and as of the end of each month thereafter.

6.2 Debt. Create, assume, incur or have outstanding any Debt, except:

(a) Debt of the Borrower and its Subsidiaries to the Lender;

(b) Debt existing on the date of this Agreement which is set forth in the financial statements referred to in Section 4.5 of this Agreement, but not any increases thereof;

(c) obligations for the payment of rent or hire of property under leases or lease agreements which would not cause the aggregate amount of all payments made by the Borrower and its Subsidiaries pursuant to such leases or lease agreements to exceed \$200,000.00 in the aggregate during any calendar year; and

(d) additional Debt of the Borrower and its Subsidiaries not to exceed \$100,000.00 in the aggregate principal amount at any one time outstanding, without the prior written consent of Lender.

6.3 ERISA Compliance. (a) Engage in any "prohibited transaction" as such term is defined in Section 4975 of the Internal Revenue Code of 1986, as amended;

(b) incur any "accumulated funding deficiency" as such term is defined in Section 302 of ERISA; or

(c) terminate any such plan in a manner which could result in the imposition of a Lien on the property of Borrower or any Subsidiary pursuant to Section 4068 of ERISA.

6.4 Amendment of Organizational Documents. Amend or otherwise modify its articles of incorporation, regulations, articles of organization or otherwise change in a material manner its corporate or limited liability company structure.

6.5 Fiscal Year. Permit its fiscal year to end on a day other than the last day of December of each year.

6.6 Nature of Business. Make any significant or substantial change in the nature of its business as being conducted on the date of this Agreement.

6.7 Disposition of Collateral. Sell, transfer, lease, exchange, alienate or otherwise dispose of (whether in one transaction or in a series of transactions) all or any part of the Collateral, except as permitted by Section 6.12, without the prior written consent of Lender.

6.8 Liens. Create, incur, assume or permit to exist any Lien upon any of its properties, assets or revenues, whether now owned or hereafter acquired, or agree to do any of the foregoing, except:

(a) Bank Liens;

(b) Liens to secure payments of workmen's compensation, unemployment insurance, old age pensions or other social security;

(c) deposits or pledges to secure performance of bids, tenders, contracts (other than contracts for the payment of money), leases, public or statutory obligations, surety or appeal bonds, or other deposits or pledges for purposes of like general nature in the ordinary course of business;

(d) Liens for taxes, assessments or other governmental charges or levies which are not delinquent or which are in good faith being contested by appropriate proceedings; provided, however, this exception shall not allow any Lien imposed by the U.S. Government for failure to pay income, payroll, FICA or similar taxes, other than any such Lien where (i) the validity, applicability or amount thereof is being contested in good faith by appropriate proceedings which will prevent the forfeiture or sale of any property of the Borrower or any Subsidiary or any material interference with the use thereof by the Borrower or any Subsidiary, and (ii) the Borrower shall have set aside on its books reserves appropriate within generally accepted accounting principles with respect thereto;

(e) vendors', operators', materialmen's, mechanics', carriers', workmen's, repairmen's or other like Liens arising by operation of law in the ordinary course of business and securing obligations less than 90 days from the date of invoice, and on which no suit to foreclose has been filed, or which are in good faith being contested by appropriate proceedings;

(f) Liens created by or resulting from any litigation or legal proceeding which is being contested in good faith by appropriate proceedings; and

(g) Liens permitted by the other Loan Papers.

6.9 Dividends, Redemptions and Other Payments. Declare or pay any dividends (except dividends payable solely in its own capital stock) on, or redeem, retire, purchase or otherwise acquire for value, any shares of any class of its respective shares of capital stock, now or hereafter outstanding, or return any capital to its shareholders, or make any other distribution in respect thereof, whether in cash or property or in obligations of the Borrower or any Subsidiary without the prior written consent of Lender, except that: (a) Borrower=s Subsidiaries may declare, pay or make dividends or distributions to Borrower; and (b) Borrower may declare and pay cash dividends on its outstanding shares of 10% Convertible Series A Preferred Stock, \$.01 par value per share, if: (i) there is not in existence, at the time of the dividend payment to be made, an AEvent of Default@ as defined in Section 7.1 of this Agreement; and (ii) the dividend payment to be made would not cause or result in the occurrence of an Event of Default.

6.10 Limitation on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of (whether in one transaction or in a series of related transactions), all or substantially all of its property, business or assets (whether now owned or hereafter acquired), or make any material change in its present method of conducting business.

6.11 Transactions with Affiliates. Enter into any transaction (including, but not limited to, the sale or exchange of property or the rendering of services) with any of its Affiliates, other than in the ordinary course of business and upon terms no less favorable than could be obtained in an arm's-length transaction with a person that was not an Affiliate.

6.12 Disposition of Assets. Sell, convey, transfer, lease, exchange, alienate or otherwise dispose of any of its respective property or assets, except, to the extent not otherwise prohibited under the other Loan Papers:

- (a) equipment which is worthless or obsolete or which is replaced by equipment of equal suitability and value;
- and
- (b) inventory and equipment which is sold or leased in the ordinary course of business.

6.13 Limitation on Negative Pledge Clauses. Enter into with any person any agreement, other than (a) this Agreement and (b) the other Loan Papers, which prohibits or limits the ability of the Borrower or any of its Subsidiaries to create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired.

6.14 Terms of Other Agreements. Become a party to any agreement (or any amendment, supplement, extension or other modification thereto or thereof) which, in any manner (i) violates, conflicts with or creates a breach of any of the terms or provisions of this Agreement or any of the other Loan Papers, (ii) provides for the granting or conveyance to any person other than Lender of Liens on or affecting the Collateral, or (iii) restricts the Borrower's or any of its Subsidiaries (a) rights of ownership, possession or operation of all or any part of the Collateral or (b) rights or ability to direct the use or disposition of all or any part of the Collateral or (c) which requires the consent of any person (other than Lender) to use or dispose of any of the Collateral for any purpose or to act or refrain from acting with respect thereto.

6.15 Amendment of Compressor Leases. Amend or otherwise modify in any material respect any lease or rental agreement covering any of the Borrower's or Subsidiaries' gas compressors without the approval of Lender; provided, however, it shall not be a violation of this Section 6.15 if upon expiration of a lease or rental agreement by its own terms Borrower enters into a new lease or rental agreement with the same lessee.

6.16 Use of Loan Proceeds. Use the proceeds of any Advance for any purpose other than as described in Section 4.11 hereof.

6.17 Mergers or Acquisitions. Enter into any merger or acquisition without the prior written consent of the Lender.

ARTICLE VII Default and Remedies

7.1 Events of Default. If any one or more of the following shall occur and shall not have been remedied in the period, if any, provided for, an "Event of Default" shall be deemed to have occurred hereunder and with respect to all of the Obligations, unless waived in writing by Lender:

- (a) default shall be made in the payment when due of any installment of principal or interest on the Notes or any other Obligations;
- (b) any representation or warranty made by the Borrower herein or in any of the other Loan Papers or in any certificate, document or financial or other statement furnished to Lender under or in connection with this Agreement or any other Loan Paper shall be or shall prove to have been incorrect or untrue or misleading in any material respect on or as of the date made or deemed made and shall continue unremedied for a period of thirty (30) days after the earlier of (i) the Borrower becoming aware of such default or (ii) the Lender giving notice thereof to the Borrower;
- (c) default shall be made by the Borrower or any Subsidiary in the due performance or observance of any covenant, condition or agreement contained in any of the Loan Papers to which it is a party and such default shall continue unremedied for a period of thirty (30) days after the earlier of (i) Borrower becoming aware of such default or (ii) the Lender giving notice thereof to the Borrower;

(d) Borrower or any Subsidiary shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of itself or of all or a substantial part of its assets; (ii) be unable, or admit in writing its inability, or fail to confirm its ability (when requested to do so by Lender) to pay its debts as they become due; (iii) make a general assignment for the benefit of creditors; (iv) be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy; (v) file a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy or insolvency law; (vi) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against it in any bankruptcy, reorganization or insolvency proceedings; or (vii) take any action for the purpose of effecting any of the foregoing;

(e) an order, judgment or decree shall be entered by any court of competent jurisdiction approving a petition seeking reorganization of the Borrower or any of its Subsidiaries or appointing a receiver, trustee or liquidator of the Borrower or any of its Subsidiaries or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed in effect for any period of thirty (30) consecutive days;

(f) the failure of the Borrower or any of its Subsidiaries to have discharged within a period of thirty (30) days after the commencement thereof any attachment, sequestration or similar proceeding against any of its properties or assets having a value of \$100,000.00 or more;

(g) any acceleration, notice of default, default, filing of suit or notice of breach by any lender, lessor, creditor or other party to any Material Agreement to which the Borrower or any of its Subsidiaries is a party, or to which its properties or assets are subject;

(h) the occurrence of a Material Adverse Effect with respect to Borrower or any of its Subsidiaries;

(i) the occurrence of a Change of Control;

(j) final judgment or judgments shall be entered against the Borrower or any of its Subsidiaries involving in the aggregate a liability (not paid or fully covered by insurance or not otherwise covered by indemnity agreements acceptable to Lender in its sole discretion) of \$100,000.00 or more, and such judgment or judgments shall not have been vacated, discharged, stayed or bonded pending appeal within sixty (60) days from the entry thereof; or

(k) if, at any time, the then existing President of the Borrower or the then existing Chief Executive Officer (if there shall be one) of the Borrower ceases, for any reason, to hold such office and a replacement for such officer acceptable to Lender is not appointed within one hundred twenty (120) days thereafter.

7.2 Remedies.

(a) Upon the occurrence of any Event of Default described in Section 7.1(d) or Section 7.1(e) hereof, the lending obligations (including the obligations to make Advances under Section 2.1 hereof), if any, of Lender hereunder shall immediately terminate, and the entire principal amount of all Obligations then outstanding together with interest then accrued and unpaid thereon shall become immediately due and payable, all without demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, notice of intention to accelerate maturity or notice of acceleration of maturity, or any other notice of default of any kind, all of which are hereby expressly waived by the Borrower.

(b) Upon the occurrence and at any time during the continuance of any other Event of Default specified in Section 7.1 hereof, Lender may, by written notice to the Borrower, (i) declare the entire principal amount of all Obligations then outstanding, together with interest then accrued and unpaid thereon, to be immediately due and payable without demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, notice of intention to accelerate maturity or notice of acceleration of maturity, or any other notice of default of any kind, all of which are hereby expressly waived by the Borrower, and (ii) terminate the lending obligations, if any, of Lender hereunder unless and until Lender shall reinstate same in writing.

7.3 Right of Setoff. Upon the occurrence and during the continuance of any Event of Default, or if the Borrower becomes insolvent, however evidenced, Lender is hereby authorized at any time and from time to time, without prior notice to Borrower (any such notice being expressly waived by the Borrower), to setoff and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by Lender to or for the credit or the account of Borrower against any and all of the Obligations, irrespective of whether or not Lender shall have made any demand under this Agreement or the Notes and although such Obligations may be unmatured. Lender agrees promptly to notify Borrower after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application. The rights of Lender under this Section 7.3 are in addition to other rights and remedies (including, without limitation, other rights of setoff) which Lender may have.

7.4 Delegation of Duties and Rights. Lender may perform any of its duties or exercise any of its Rights under the Loan Papers by or through its officers, directors, employees, attorneys, agents or other representatives.

7.5 Lender Not in Control. None of the covenants or other provisions contained in this Agreement or the other Loan Papers shall, or shall be deemed to, give Lender the Right to exercise control over the affairs or management of the Borrower.

7.6 Waivers by Lender. The acceptance by Lender at any time and from time to time of part payment on the Obligations shall not be deemed to be a waiver of any Event of Default then existing. No waiver by Lender of any Event of Default shall be deemed to be a waiver of any other then-existing or subsequent Event of Default. No delay or omission by Lender in exercising any Right under this Agreement or any of the other Loan Papers shall impair such Right or be construed as a waiver thereof or any acquiescence therein.

7.7 Cumulative Rights. All Rights available to Lender under this Agreement and the other Loan Papers are cumulative of, and in addition to, all other Rights available to Lender at law or in equity. The exercise or partial exercise of any such Right shall not preclude the exercise of any other Right under the Loan Papers or otherwise.

7.8 Expenditures by Lender. All court costs, reasonable attorneys' fees, other costs of collection, and other sums spent by Lender pursuant to the exercise of any Right provided herein shall be payable to Lender on demand, shall become part of the Obligations, and shall bear interest at a rate per annum two percent (2%) above the Prime Rate on each such amount commencing on the date notice of such claims, judgments, costs, charges or attorneys' fees is given to Borrower by Lender until the date paid by Borrower.

ARTICLE VIII
Miscellaneous

8.1 Survival of Representations and Warranties. All representations and warranties of the Borrower made herein, in the other Loan Papers to which it is a party and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Notes.

8.2 Communications. Unless specifically otherwise provided, whenever any Loan Paper requires or permits any consent, approval, notice, request, or demand from one party to another, such communication must be in writing (which may be by cable, telex, telecopy, fax or other similar means of remote facsimile transmission) to be effective and shall be deemed to have been given on the day actually delivered or, if mailed, on the third day (or if such third day is not a Business Day, then on the next succeeding Business Day) after it is enclosed in an envelope, addressed to the party to be notified at the address stated below, properly stamped, sealed, and deposited in the appropriate official postal service. Until changed by notice pursuant hereto, the address of each party for purposes of this Agreement is as follows:

BORROWER:

Natural Gas Services Group, Inc.
508 W. Wall, Suite 550
Midland, Texas 79701
Attn: Stephen C. Taylor
Facsimile Number for Notice: (432) 262-2701

or

LENDER:

Western National Bank
508 W. Wall, Suite 1100
Midland, Texas 79701
Attn: Scott A. Lovett
Facsimile Number for Notice: (432) 570-9567

8.3 Successors and Assigns.

(a) All covenants and agreements contained by or on behalf of the Borrowers in this Agreement, the Notes and the other Loan Papers shall bind its respective successors and assigns and shall inure to the benefit of the Bank and its successors and assigns. The Borrowers shall not, however, have the right to assign any of its respective rights hereunder or any interest herein without the prior written consent of Lender and Lender shall not be obligated to make any Loan hereunder to any Person other than the Borrowers.

(b) Lender may sell, without the consent of the Borrower, a participation interest to any financial institution or institutions, and such financial institution or institutions may further sell a participation interest (undivided or divided) in, the Loan made to the Borrower hereunder and the Lender=s rights and benefits under this Agreement, the Notes and the other Loan Papers and to the extent of that participation, such participant or participants shall have, without limitation, the same rights and benefits against the Borrower as it or they would have had if participation of such participant or participants were the Lender making the loans to the Borrowers hereunder, provided, however, that (i) the Lender=s obligations under this Agreement shall remain unmodified and fully effective and enforceable against the Lender, (ii) the Lender shall remain the holder of the Notes for all purposes of this Agreement, and (iii) the Borrower shall continue to deal solely and directly with the Lender in connection with the Lender=s rights and obligations under this Agreement.

(c) Lender may, without the consent of the Borrower, assign to one or more banks or other persons all or a portion of the Lender=s rights and obligations under this Agreement (including, without limitation, all or a portion of the indebtedness owing to it from the Borrower and the Notes and the other Loan Papers held by it). Upon any such assignment, from and after the effective date specified in such assignment (i) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such assignment, have the rights and obligations of the Bank hereunder, and (ii) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such assignment, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an assignment covering all of the remaining portion of the Lender=s rights and obligations under this Agreement, the Lender shall cease to be a party hereto).

(d) Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Agreement disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower.

8.4 Governing Law. THIS AGREEMENT AND THE OTHER LOAN PAPERS SHALL BE DEEMED TO BE CONTRACTS MADE UNDER, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF TEXAS; PROVIDED, HOWEVER, THAT THE RIGHTS PROVIDED IN ANY LOAN PAPER WITH REFERENCE TO PROPERTIES COVERED THEREBY THAT ARE SITUATED IN OTHER STATES MAY BE GOVERNED BY THE LAWS OF SUCH OTHER STATES, AND PROVIDED, FURTHER, THAT THE LAWS PERTAINING TO THE ALLOWABLE RATES OF INTEREST MAY, FROM TIME TO TIME, BE GOVERNED BY THE LAWS OF THE UNITED STATES OF AMERICA.

8.5 Usury Savings Clause. It is the intention of the parties hereto that Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated hereby would be usurious as to Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to Lender notwithstanding the other provisions hereof), then, in that event, notwithstanding anything to the contrary in the Notes, this Agreement or any other Loan Paper or other agreement entered into in connection with or as security for the Notes, (i) the aggregate of all consideration which is contracted for, taken, reserved, charged or received by Lender under the Notes, this Agreement or any other Loan Paper or agreement entered into in connection with or as security for the Notes shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be credited by Lender on the principal amount of the Obligations to Lender (or, to the extent that the principal amount of the Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower); and (ii) in the event that the maturity of the Notes is accelerated by reason of an Event of Default under this Agreement or otherwise, or in the event of any prepayment, then such consideration that constitutes interest under law applicable to Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in the Notes, this Agreement or otherwise shall be cancelled automatically by Lender as of the date of such acceleration of prepayment and, if theretofore paid, shall be credited by Lender on the principal amount of the Obligations (or, to the extent that the principal amount of such Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower).

To the extent that Texas Finance Code Section 303.002 is relevant to Lender for the purposes of determining the Highest Lawful Rate, the applicable rate ceiling under such provisions shall be determined by the indicated (weekly) rate ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law. Notwithstanding anything to the contrary contained herein or in any of the other Loan Papers, it is not the intention of the Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

8.6 Severability. If one or more of the provisions contained herein or in the Notes or any of the other Loan Papers shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, the Notes or any of the other Loan Papers.

8.7 Non-Waiver. No Advance hereunder shall constitute a waiver of the representations, warranties, conditions or agreements of Borrower or of any of the conditions of Lender's obligations to make further Advances. If Borrower is unable to satisfy any such representation, warranty, condition or agreement, no such Advance shall have the effect of precluding Lender from thereafter declaring such inability to be an Event of Default as hereinabove provided.

8.8 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

8.9 Amendments and Waivers. Neither this Agreement, the Notes nor any of the other Loan Papers may be amended or waived orally, but only by an instrument in writing signed by Borrower and Lender (and/or any other person which is a party to the Loan Paper being amended or waived).

8.10 Terms and Headings. Terms used herein but not defined shall have the meanings accorded them under generally accepted accounting principles, or the Texas Uniform Commercial Code, as appropriate. All headings used herein are for convenience and reference purposes only and shall not affect the substance of this Agreement.

8.11 Conflicts. If there is ever a conflict between any of the terms, conditions, representations, warranties or covenants contained in this Agreement and the terms, conditions, representations, warranties or covenants in any of the other Loan Papers executed by the Borrower, the provisions of this Agreement shall govern and control; provided, however, the fact that any term, condition, representation, warranty or covenant contained in such other Loan Paper is not contained herein shall not be, or be deemed to be, a conflict.

8.12 Environmental Indemnity. Borrower hereby agrees to defend, indemnify, pay and hold Lender and its officers, directors, employees and agents (each, an "Indemnitee") harmless from and against, and shall reimburse each Indemnitee for, any and all loss, claim, liability, damages, injunctive relief, penalty, judgment, suit, obligation, injury to persons, property or natural resources, cost, expense or disbursement of any kind or nature whatsoever including, without limitation, attorneys' fees and costs attributable to any action or cause of action (whether or not each Indemnitee shall be designated a party thereto), arising, directly or indirectly, in whole or in part, out of the release or presence, or alleged release or alleged presence, or any Hazardous Substance, at, on, or under, surrounding or in connection with any of the real property owned or leased by Borrower ("Premises"), or any portion thereof, whether foreseeable or unforeseeable, regardless of the source of such release and regardless of when such release occurred or such presence is discovered. The foregoing indemnity includes, without limitation, all cost in law or in equity of removal, remediation of any kind and disposal of any such Hazardous Substance, all costs of determining whether the Premises are in compliance, and causing the Premises to be in compliance, with all Requirements of Law relating to Hazardous Substances, all costs associated with claims for damages to persons, property or natural resources, and each Indemnitee's consultants' fees (including attorneys' fees and costs) and court costs. The obligations of Borrower under this indemnity shall survive the repayment of the Notes and shall be independent of the obligations of Borrower to the Indemnitees in connection with the Notes. The rights of each Indemnitee under this indemnity shall be in addition to any other rights and remedies of such Indemnitee under any guaranty or any document or instrument now or hereafter executed in connection with this Agreement, the Notes, the Loan Papers or at law or in equity.

8.13 Renewal, Extension or Rearrangement. All provisions of this Agreement and any of the other Loan Papers relating to the Notes or any other Obligations shall apply with equal force and effect to each and all promissory notes hereafter executed which in whole or in part represent a renewal, extension for any period, increase or rearrangement of any part of the Obligations originally represented by the Notes or any part of such other Obligations.

8.14 Direct Benefit. The loans hereunder and any additional loans are for the direct benefit of each of the Borrower and its Subsidiaries and the loans hereunder will be used by them for general working capital purposes. The Borrower and its Subsidiaries are engaged as an integrated group in the manufacturing, leasing and financing of industrial equipment and systems for the oil and gas industry and other industries, and any benefits to the Borrower or any of its Subsidiaries are a benefit to all of them, both directly or indirectly, inasmuch as the successful operation and condition of the Borrower and its Subsidiaries is dependent upon the continued successful performance of the functions of the integrated group as a whole.

8.15 Waivers. No course of dealing on the part of the Lender, its officers, employees, consultants or agents, nor any failure or delay by the Lender with respect to exercising any right, power or privilege of the Lender under this Agreement, the Notes or any other Loan paper shall operate as a waiver thereof, except as otherwise provided in Section 8.9 hereof.

8.16 Cumulative Rights. Rights and remedies of the Lender under this Agreement, the Notes and the other Loan Papers shall be cumulative, and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

8.17 Governmental Regulation. Anything contained herein to the contrary notwithstanding, the Lender shall not be obligated to extend credit to the Borrower in an amount in violation of any limitation or prohibition provided by any applicable statute or regulation.

8.18 Exhibits. The exhibits, annexes and schedules attached to this Agreement are incorporated herein and shall be considered a part of this Agreement for the purposes stated herein, except that in the event of any conflict between any of the provisions of such exhibits, annexes and schedules and the provisions of this Agreement, the provisions of this Agreement shall prevail. All capitalized terms used in such exhibits, annexes and schedules, but not defined therein, shall have the same meanings as given to such terms in this Agreement.

THIS AGREEMENT AND THE OTHER LOAN PAPERS REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.

EXECUTED EFFECTIVE as of the date first above written.

BORROWER:

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Stephen C. Taylor
Stephen C. Taylor, President

LENDER:

WESTERN NATIONAL BANK

By: /s/Scott A. Lovett, Executive
Vice President

REVOLVING LINE OF CREDIT PROMISSORY NOTE

 \$40,000,000.00

 May 16, 2008

FOR VALUE RECEIVED, in the manner, on the dates and in the amounts herein stipulated, NATURAL GAS SERVICES GROUP, INC., a Colorado corporation ("Borrower"), hereby promises and agrees to pay to the order of WESTERN NATIONAL BANK, a national banking association ("Lender"), in Midland, Midland County, Texas, the principal sum of FORTY MILLION AND NO/100 DOLLARS (\$40,000,000.00) (the "Total Principal Amount"), or such amount less than the Total Principal Amount which is outstanding from time to time if the total amount outstanding under this Promissory Note (this "Note") is less than the Total Principal Amount, together with interest at a rate per annum which shall from day to day be equal to the lesser of (a) a rate per annum (the Established Rate) equal to the Prime Rate in effect from day to day minus one-quarter of one percent (0.25%), but such rate shall never be lower than four percent (4%) or higher than eight and three-quarters percent (8.75%), or (b) the Highest Lawful Rate, in each case calculated on the basis of actual days elapsed, but computed as if each calendar year consisted of 360 days. Each change in the rate of interest charged under this Revolving Line of Credit Promissory Note (this "Note") shall, subject to the terms hereof, become effective, without notice to Borrower, upon the effective date of each change in the Prime Rate or the Highest Lawful Rate, as the case may be. Notwithstanding the foregoing, if at any time the Established Rate exceeds the Highest Lawful Rate, the rate of interest on this Note shall be limited to the Highest Lawful Rate, but any subsequent reductions in the Established Rate shall not reduce the rate of interest hereon below the Highest Lawful Rate until the total amount of interest accrued hereon approximately equals the amount of interest which would have accrued hereon if the Established Rate had at all times been in effect. In the event that at maturity (stated or by acceleration), or at final payment of this Note, the total amount of interest paid or accrued hereon is less than the amount of interest which would have accrued if the Established Rate had at all times been in effect, then, at such time and to the extent permitted by applicable laws, Borrower shall pay to Lender an amount equal to the difference between (a) the lesser of the amount of interest which would have accrued if the Established Rate had at all times been in effect or the amount of interest which would have accrued if the Highest Lawful Rate had at all times been in effect, and (b) the amount of interest actually paid or accrued on this Note. Interest calculations may be made ten (10) days prior to any interest installment due date under this Note, in which event, if there is an adjustment in the interest rate in accordance with the terms hereof during such ten-day period, then Borrower shall subsequently, on demand, pay to Lender any underpayment, or Lender shall pay to Borrower, any overpayment, as the case may be, as a result of any adjustment during such ten-day period.

This Note is given in renewal, extension and modification, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note dated October 15, 2006, as modified effective April 1, 2008, which note was given in renewal, extension and modification, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note dated January 3, 2006, in the original principal amount of \$10,000,000.00, as modified effective March 24, 2006, and further modified on August 28, 2006, which note was given in renewal, extension and modification, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note dated January 3, 2005, in the original principal amount of \$2,000,000.00, as modified effective May 1, 2005, which note was given in renewal, extension and modification, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note, dated May 28, 2004, in the original principal amount of \$750,000.00, which note was given in renewal, extension and modification, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note dated March 26, 2003, as modified effective March 15, 2004, by and between Borrower and Lender, and is the Revolving Line of Credit Promissory Note referred to in the Second Amended and Restated Loan Agreement, dated as of November 3, 2003, as subsequently amended and restated from time to time (the Prior Loan Agreements). This Note is made pursuant to that certain Eighth Amended and Restated Loan Agreement, as the same may be amended, supplemented or otherwise modified from time to time (the "Loan Agreement"), by and among Borrower and the Lender, and is subject to the terms and conditions thereof. Reference is made to the Loan Agreement for provisions for the disbursement of funds hereunder and for a further statement of the rights, remedies, powers, privileges, benefits, duties and obligations of Borrower and Lender under the Loan Agreement and this Note. Terms used herein which are defined in the Loan Agreement shall have such defined meanings unless otherwise defined herein. The holder of this Note shall be entitled to the benefits of the Loan Agreement.

Advances and Subsequent Advances under this Note shall be made in accordance with the provisions of the Loan Agreement. Subject to the terms hereof and of the Loan Agreement, Borrower may borrow, repay and reborrow at any time and from time to time under this Note; provided, however, that the principal sum outstanding hereunder at any one time shall never exceed the lesser of (i) \$40,000,000.00 or (ii) the amount available for advance under this Note calculated in accordance with the terms of the Loan Agreement.

Lender reserves the right to periodically conduct a review of the Borrower's ability to perform under the terms of this Note and to limit or restrict future advances under this Note.

Interest on the outstanding principal balance of this Note shall be due and payable monthly on the first (1st) day of each month, commencing June 1, 2008. The then outstanding principal balance of this Note and all accrued and unpaid interest shall be due and payable on May 1, 2010. All of the past due principal and accrued interest hereunder shall, at the option of Lender, bear interest from maturity (stated or by acceleration) until paid at a rate per annum equal to the Highest Lawful Rate. The interest rate on this Note is a fixed rate until maturity. Any adjustment downward as a result of Borrower's request or otherwise is subject to an adjustment fee.

This Note is secured as provided in the Loan Agreement and in the other Loan Papers, to which reference is hereby made for a description of the properties and assets in which a lien and security interest has been granted, the nature and extent of the security, the terms and conditions upon which the liens and security interests were granted and the rights of the holder of this Note with respect thereto.

Time is of the essence of this Note. Upon the occurrence of any one or more of the Events of Default specified in the Loan Agreement (after expiration of any applicable notice and cure periods), all amounts then remaining unpaid on (a) this Note and (b) the Multiple Advance Term Note dated October 15, 2006, from Borrower to Lender in the original principal amount of \$16,891,105.87, shall become, or may be declared to be, immediately due and payable, all as provided therein.

Upon the occurrence and during the continuance of any Event of Default, or if Borrower becomes insolvent, however evidenced, Lender is hereby authorized at any time and from time to time, without prior notice to Borrower, to setoff and apply any and all deposits (general or special, time or demand, provisional or final) at any time held or other indebtedness at any time owing by Lender to or for the credit or the account of Borrower against any and all of the Obligations, irrespective of whether or not Lender shall have made any demand under the Loan Agreement or this Note and although such Obligations may be unmaturing. Lender agrees promptly to notify Borrower after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application. The rights of Lender under this paragraph are in addition to other rights and remedies (including, without limitation, other rights of setoff) which Lender may have.

Borrower and any and all co-makers, endorsers, guarantors and sureties severally waive notice (including, but not limited to, notice of protest, notice of dishonor, notice of intent to accelerate and notice of acceleration), demand, presentment for payment, protest, diligence in collecting or bringing suit and the filing of suit for the purpose of fixing liability, and consent that the time of payment hereof may be extended and re-extended from time to time without notice to them or any of them, and each agrees that his, her or its liability on or with respect to this Note shall not be affected, diminished or impaired by any (a) release of any security at any time existing for this Note, (b) substitution for any security at any time existing for this Note, or (c) failure to perfect (or to maintain perfection of) any lien on or security interest in any such security, in each case in whole or in part, with or without notice, before or after maturity.

It is the intention of Borrower and Lender that Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated by the Loan Agreement and this Note would be usurious as to Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to Lender notwithstanding the other provisions of the Loan Agreement and this Note), then, in that event, notwithstanding anything to the contrary in this Note, the Loan Agreement or any other Loan Paper or other agreement entered into in connection with or as security for this Note, (i) the aggregate of all consideration which is contracted for, taken, reserved, charged or received by Lender under this Note, the Loan Agreement or any other Loan Paper or agreement entered into in connection with or as security for this Note shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be credited by Lender on the principal amount of the Obligations to Lender (or, to the extent that the principal amount of the Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower); and (ii) in the event that the maturity of this Note is accelerated by reason of an Event of Default under the Loan Agreement or otherwise, or in the event of any prepayment, then such consideration that constitutes interest under law applicable to Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in this Note, the Loan Agreement or otherwise shall be cancelled automatically by Lender as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited by Lender on the principal amount of the Obligations (or, to the extent that the principal amount of such Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower).

To the extent that Texas Finance Code Section 303.002 is relevant to Lender for the purposes of determining the Highest Lawful Rate, the applicable rate ceiling under such provisions shall be determined by the indicated (weekly) rate ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law. Notwithstanding anything to the contrary contained herein or in any of the other Loan Papers, it is not the intention of the Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

THIS NOTE HAS BEEN EXECUTED UNDER, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS, EXCEPT AS SUCH LAWS ARE PREEMPTED BY APPLICABLE FEDERAL LAWS. THIS NOTE HAS BEEN ENTERED INTO IN MIDLAND COUNTY, TEXAS, AND IT SHALL BE PERFORMABLE FOR ALL PURPOSES IN MIDLAND COUNTY, TEXAS. COURTS WITHIN THE STATE OF TEXAS SHALL HAVE JURISDICTION OVER ANY AND ALL DISPUTES BETWEEN BORROWER AND LENDER, WHETHER AT LAW OR IN EQUITY, AND VENUE IN ANY SUCH DISPUTE, WHETHER IN FEDERAL OR STATE COURTS, SHALL BE LAID IN MIDLAND COUNTY, TEXAS. BORROWER HEREBY CONSENTS TO PERSONAL JURISDICTION IN MIDLAND COUNTY, TEXAS AND WAIVES ANY RIGHTS IT MAY HAVE TO BE SUED ELSEWHERE.

BORROWER AND THE HOLDER OF THIS NOTE (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) BETWEEN OR AMONG BORROWER AND SUCH HOLDER ARISING OUT OF OR IN ANY WAY RELATED TO THIS NOTE, AND OTHER LOAN DOCUMENT OR ANY RELATIONSHIP BETWEEN HOLDER AND BORROWER RELATED TO THE LOAN EVIDENCED BY THE LOAN DOCUMENTS. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE HOLDER OF THIS NOTE TO PROVIDE THE FINANCING DESCRIBED HEREIN AND IN THE OTHER LOAN DOCUMENTS.

THIS NOTE, THE LOAN AGREEMENT, AND THE OTHER LOAN PAPERS REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.

NATURAL GAS SERVICES GROUP, INC.

/s/Stephen C. Taylor

Stephen C. Taylor

President and Chief Executive Officer