



**2009 ANNUAL REPORT**

## 2009 Letter To Our Shareholders



*Stephen C. Taylor  
Chairman of the Board  
President & Chief Executive Officer  
Natural Gas Service Group, Inc.*

Fellow Shareholders,

I do not have to tell you how tough the market was in 2009. As I'm sure you have heard from others in the industry, the decline in business we experienced was the steepest and most severe I have seen in my 30 plus year energy career. NGS was affected by two primary factors during the year. First, the general decline in activity related to the supply/demand dynamics of natural gas and secondly, the general macroeconomic recessionary climate. Not only was the demand for natural gas impacted due to a slowing economy, but the credit market seizure also affected our customers' purchases of capital equipment. In spite of that, NGS emerged from 2009 in excellent financial condition, whether measured in an absolute or relative manner, and typically better than our competitors or the industry as a whole.

NGS revenues declined 21% over the year with the majority of that impact coming from our engineered compressor products line. As evidenced in the past, this is a very cyclical business and particularly sensitive to slowing activity. It is the first to be negatively impacted and it will be the last to recover. Contrary to the revenue decline, however, we were able to maintain our industry-high gross margin ratios. Conversely, our compressor rental business held up well in 2009. Full year revenues were higher than the prior year, gross margins ticked up and, although pricing was under continual pressure, we were able to maintain ours at market-premium levels. In accordance with our long-term strategy, rentals are now 67% of total revenues.

During a year when balance sheets were under pressure due to credit constraints and declining markets, NGS was able to significantly strengthen ours with lower debt levels and improved liquidity. We ended the year with total debt-to-capitalization at less than 10% and increased our balance sheet cash from \$1 million to over \$23 million. Cash generated from operating activities exceeded \$32 million. We also filed a shelf registration with the SEC to ensure access to significant funding if required for operational or opportunistic purposes.

While pleased with our results in an extremely difficult year, we anticipate lackluster markets continuing into 2010. The natural gas supply/demand picture has not appreciably improved, the general economy remains sluggish and the industry environment will continue to be competitive. In spite of this, however, NGS is well positioned to take advantage of the market in 2010, whatever it may be. We will continue to monitor costs, search for efficiencies and actively pursue business opportunities.

For the fifth consecutive year, FORBES magazine named NGS one of the 200 Best Small Companies in America. This recognition is always welcome, but the credit goes to our employees, customers and shareholders for their hard work and support. While there are certainly short-term challenges, we remain confident in the future of the company and the natural gas industry.

Regards,  
Stephen Taylor  
Chairman, President and Chief Executive Officer

### Financial Highlights

*(in thousands, except for per share data)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Revenue	\$ 72,489	\$ 85,336	\$ 67,796
Rental Revenue	\$ 30,437	\$ 42,864	\$ 45,146
Operating Income	\$ 18,589	\$ 24,575	\$ 17,765
	26%	29%	26%
Net Income	\$ 12,278	\$ 15,593	\$ 11,015
	17%	18%	16%
Earnings Per Diluted Share	\$ 1.01	\$ 1.28	\$ 0.91
Cash Flow Provided by Operations	\$ 18,269	\$ 28,250	\$ 32,178
	25%	33%	47%



NGS Board of Directors from left to right:

Gene Strasheim, Charles Curtis, John Chisholm,  
Stephen Taylor, Alan Baker, Rick Yadon and Frank Hughes.

## Executive Officers and Directors

### **Stephen C. Taylor**

Chairman of the Board,  
President and Chief Executive  
Officer

### **Earl R. Wait**

Vice President – Accounting &  
Treasurer

### **James R. Hazlett**

Vice President – Technical  
Services

### **Alan A. Baker** - Director

Former President, Chairman and  
Chief Executive Officer of  
Halliburton Company's Energy  
Services Group

### **John W. Chisholm** - Director

Founder, Wellogix, Inc.

### **William F. Hughes** - Director

Co-Owner, The Whole  
Wheatery, LLC

### **Charles G. Curtis** - Director

Retired, Former President and  
Chief Executive Officer of Curtis  
One Inc. dba Roll Stair

### **Gene A. Strasheim** - Director

Retired, Former Chief Financial  
Officer, Skyline Electronics  
Products

### **Richard L. Yadon** - Director

President and Owner, Midland  
Pipe & Equipment, Inc.

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### **Independent Auditors**

BDO Seidman, LLP  
333 Clay St., Suite 4700  
Houston, Texas 77002  
Telephone: (713)-659-6551  
Fax: (713)-659-3238

### **Investor Relations**

Kimberly Huckaba  
Investor Relations Coordinator  
Telephone: (432) 262-2700  
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### **Transfer Agent & Registrar**

Computershare Trust Company,  
Inc.  
Golden Colorado

### **Legal Counsel**

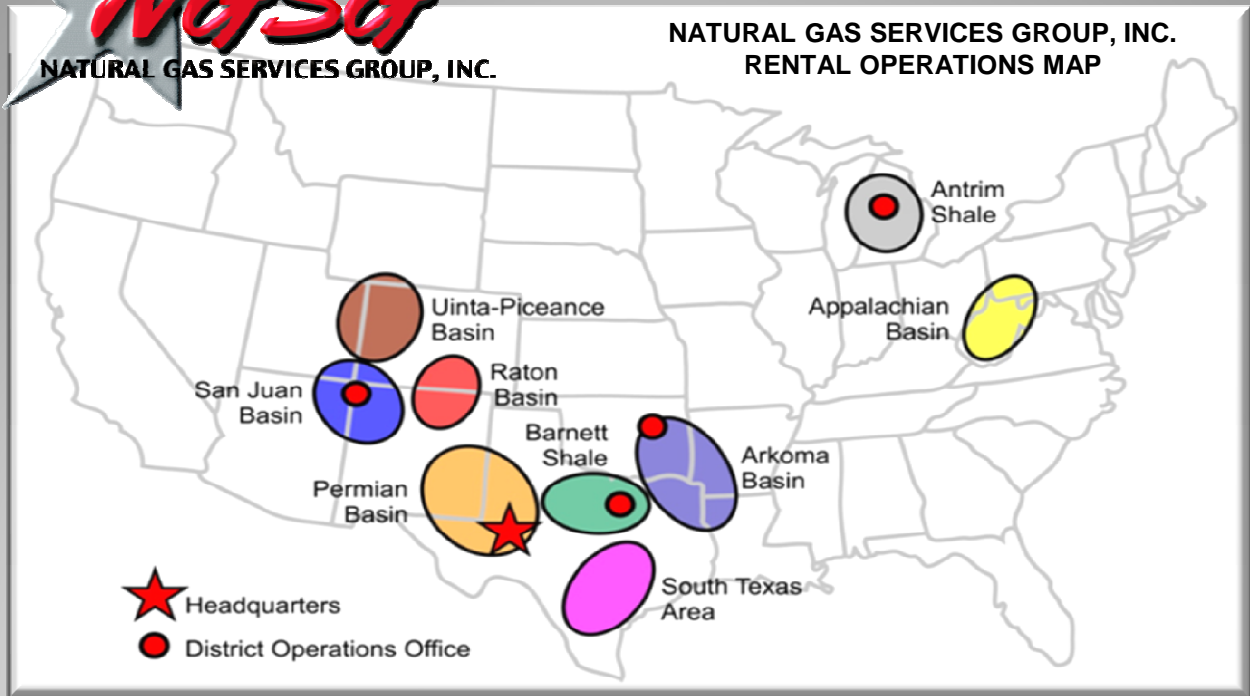
David A. Thayer  
Jones & Keller, P.C.  
1999 Broadway, Suite #3150  
Denver, Colorado 80202  
Telephone: (303) 785-1623  
Fax: (303) 573-8133

### **Annual Meeting of Shareholders**

June 15, 2010  
9:00A.M. CDT  
Hilton Hotel  
117 West Wall Street  
Midland, Texas 79701



**NATURAL GAS SERVICES GROUP, INC.  
RENTAL OPERATIONS MAP**



**About NGS**

Headquartered in Midland, TX, NGS maintains a growing rental fleet of high quality rotary screw and reciprocating wellhead compressors in the 50-500 horsepower range. At the end of 2009 our rental fleet totaled 1776 compressor units...the largest rental compressor fleet in our U.S. market segment. We provide repair and maintenance services on our rental fleet units through our network of district offices in Midland, Bridgeport and Godley, TX, Farmington, NM, Tulsa, OK, and Lewiston, MI. We maintain rental compressor fabrication facilities in Midland, TX and Lewiston, MI and design, fabricate and sell highly engineered rotary screw compressor packages through our Engineered Products line in Tulsa, OK. This equipment ranges up to 2500 horsepower per unit and can be natural gas engine or electric motor driven. NGS manufactures our own proprietary reciprocating compressor product line. The CiP (Cylinders in Plane) reciprocating compressor is a unique and efficient, small horsepower design that is utilized in our rental fleet and sold to compressor packagers, distributors and end-users throughout North America. The Company designs, fabricates, sells, installs and services technologically advanced and patented industrial flare and ignition systems through our Flare King product line for use in oil and natural gas production facilities.

**Headquarters**

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