



2010 ANNUAL REPORT

NGS
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2010 Letter To Our Shareholders



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

Fellow Shareholders,

2010 was a year that continued to test our ability to manage through a continued downturn in the natural gas industry. Low commodity prices, increased natural gas supply and continued weak demand contributed to dampen our activity. In spite of this, NGS' rental business turned the corner and we experienced higher utilization levels and increasing revenues, albeit at a slow rate. As anticipated, our engineered compressor products line did not recover and continued at a very low level of activity. In fact, our decreased year-over-year revenues were solely attributable to this business segment. This capital oriented business is very sensitive to commodity prices and we do not think we will see a substantive recovery until natural gas prices begin to increase and there is confidence from our customers that improved pricing will hold.

In spite of the difficult year, NGS made financial and operational progress. Our rental revenues grew each quarter through the year while we achieved gross margins of 60%. Although total sales revenues decreased, gross margins increased for the year. NGS' rental and sales margins continued to be some of the highest in our industry. Capital spending was almost \$22 million and was predominately self-funded through operating cash flow and our liquidity remained at high levels with total debt now less than \$2 million. Operationally, our rental fleet continued to grow with compressors being added to the fleet at full utilization. We secured the business of a couple of large, major operators which, in addition to contributing revenues, proved our ability to compete with much larger competitors from an engineering, quality and safety perspective. In the fourth quarter of 2010 NGS moved into position as the third largest rental fleet operator in North America as tracked by the Gas Compressor Association.

The future continues to brighten and we think the worst is behind us, but we do anticipate short-term choppiness in our markets due to cost pressures, moribund commodity prices and unpredictable competition. However, factors supporting a continued recovery look to be getting stronger. The gas shale plays that we presently operate in are beginning to show some increased, although spotty, activity. We anticipate additional growth in the newer shale plays over the next couple of years as our customers start to require the wellhead compression equipment and services that we supply. The movement into oil and liquids-rich plays by our customers has provided NGS with added opportunities to set compression and to, simultaneously, diversify into some oil related exposure. Over the longer term we think that the move towards the greater use of natural gas from an environmental and infrastructure standpoint will continue to grow. All in all, we remain excited about the prospects for NGS and are confident in our ability to take advantage of future opportunities.

Your company has come through some tough times and weathered the storm in an exceptional manner. This is attributable solely to the efforts and support of our shareholders and employees and I, along with the management team and the Board of Directors, convey our appreciation and thanks.

As always, we invite you to NGS' annual meeting to be held in Midland, TX on June 14, 2011 at 9:00am at the Hilton Hotel at Midland Plaza.

Sincerely,
Stephen C. Taylor
Chairman, President and Chief Executive Officer



Executive Officers and Directors

Stephen C. Taylor

Chairman of the Board,
President and Chief Executive
Officer

G. Larry Lawrence

Principal Accounting Officer &
Treasurer

James R. Hazlett

Vice President – Technical
Services

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.

Independent Auditors

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

Investor Relations

Modesta J. Idiaquez
Investor Relations Coordinator
Telephone: (432) 262-2700
Fax: (432) 262-2701

Transfer Agent & Registrar

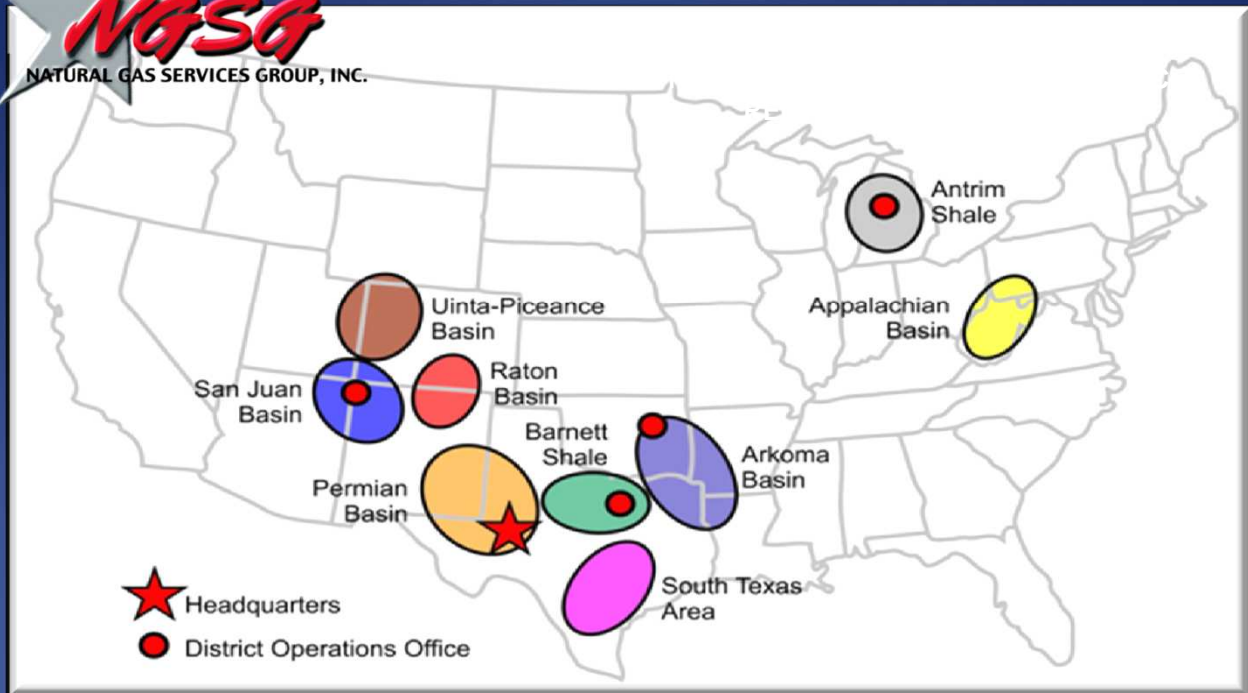
Computershare Trust Company,
Inc.
Golden Colorado

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 14, 2011
9:00A.M. CDT
Hilton Hotel
117 West Wall Street
Midland, Texas 79701



About Natural Gas Services Group, Inc.

Headquartered in Midland, TX, Natural Gas Services Group (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 2010 the rental fleet totaled 1909 compressor units...the largest rental compressor fleet in the U.S. dedicated to the small-medium horsepower, wellhead market. Repair and maintenance services for rental fleet units is provided through a network of district offices in Midland, Bridgeport and Godley, TX, Farmington, NM, Vernal, UT, Tulsa, OK, and Lewiston, MI, including the Appalachian and South Texas areas. Rental compressor fabrication facilities are located in Midland, TX and Lewiston, MI. NGS designs, fabricates and sells custom engineered rotary screw and reciprocating compressor packages through our Engineered Products line in Tulsa, OK. This custom equipment ranges up to 2500 horsepower per unit and can be natural gas engine or electric motor driven. NGS designs, manufactures and fabricates a 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 also designs, fabricates, sells, installs and services technologically advanced and patented industrial flare and ignition systems through our Flare King product line for use in onshore and offshore oil and natural gas production facilities. NGS is a public company listed on the New York Stock Exchange and has been named to the Forbes magazine list of the 200 Best Small Companies in the US for five consecutive years beginning in 2005.

Headquarters

508 West Wall Street,
Suite 550
Midland, Texas 79701
(432) 262-2700
(432) 262-2701 fax
www.ngsgi.com

Michigan

3690 CR 491
Lewiston, Michigan 49756
(989) 786-3788
(989) 786-5182 fax

New Mexico

3900 N. 1st
Bloomfield, New Mexico 87413
(505) 632-4566
(505) 632-1364 fax

North Texas

Bldg 107 PR 1420
Bridgeport, Texas 76426
(940) 683-5322
(940) 683-5113 fax

4721 N. Hwy 171
Cleburne, Texas 76033
(817) 645-5559
(817) 645-6809 fax

Oklahoma

575 Bird Creek Avenue
Catoosa, Oklahoma 74015
(918) 266-3330
(918) 971-1818 fax

Utah

1380 South 1300 East
Naples, Utah 84078
(432)-262-2700

West Texas

12301 W. CR 125
Odessa, Texas 79765
(432) 262-2700
(432) 561-5480 fax