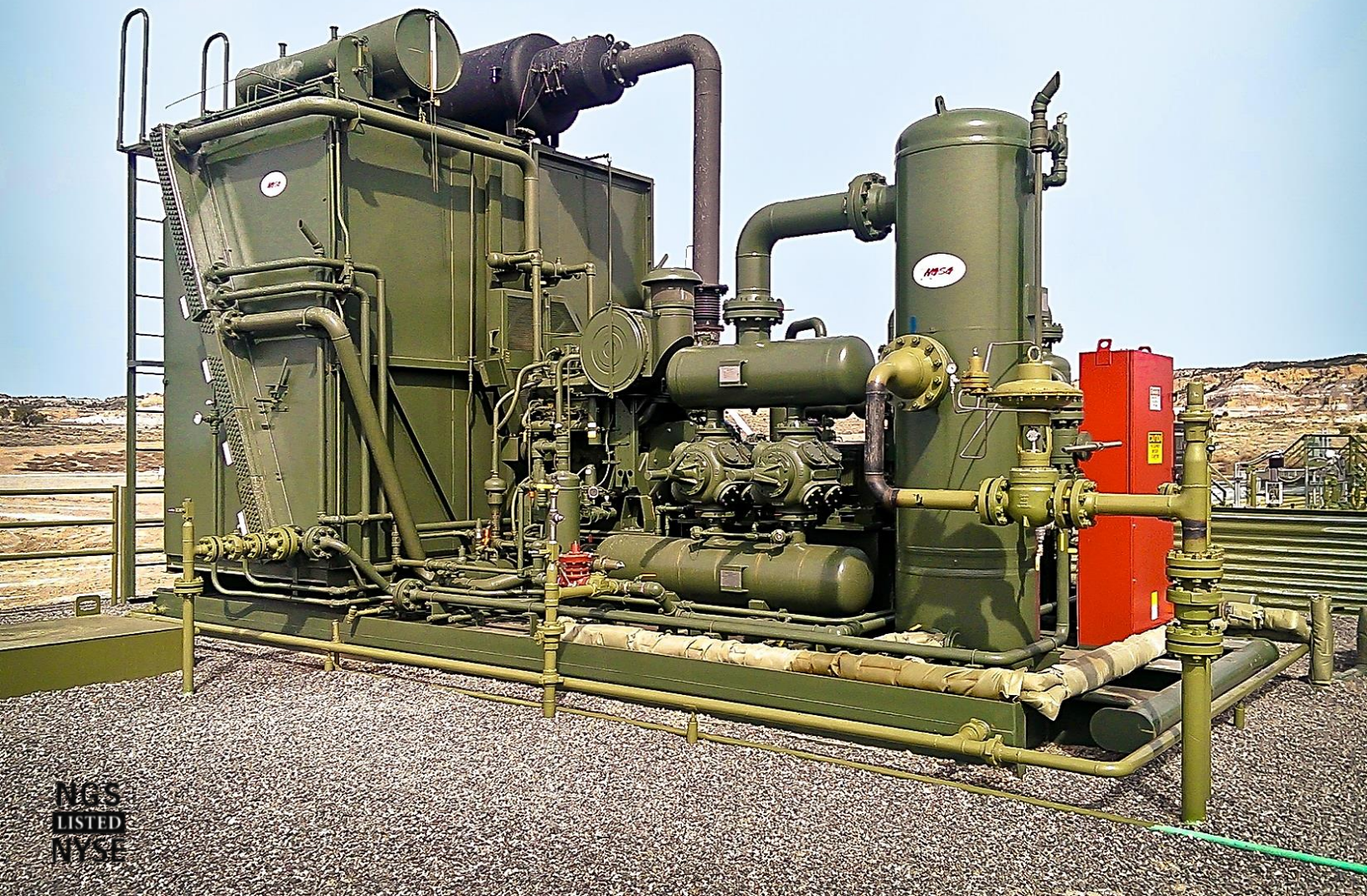




ANNUAL REPORT 2015



2015 LETTER TO OUR SHAREHOLDERS

Against the backdrop of one of the worst downturns in our industry, Natural Gas Services Group was able to deliver exceptional results. Whether measured against our peers and competitors or the industry as a whole, very few companies delivered the financial results we did.

In 2015, NGS total revenues were \$95.9 million, a decrease of only 1% from 2014; a record year for company revenues. Rental revenues did exhibit a 3% overall decline, but we were able to increase our compressor fabrication revenues enough to offset those. Positively, we moved quickly to control our expenses and deliver some of the highest rental gross margins we have experienced in the past few years. Gross margins averaged 62% in 2015 as compared to 60% in 2014.

NGS began pulling back on our rental fabrication activity in the fourth quarter of 2014 which, upon reflection, was the same quarter that the US rig count peaked. We experienced the same phenomena in 2008 when we started to decrease our fabrication activity in the 3rd quarter; again, the peak rig activity of the last cycle. Our ability to proactively adjust our levels of activity is critically important during these times of market dislocation. Capital expenditures in 2015 were \$12.5 million, a 77% reduction from 2014.

With shop and field level expenses under control, NGS also continued to hold our Sales, General and Administrative overhead expenses to the lowest level in the business, an average of 11% of revenue.

During the year we made the decision to retire some of our older, small horsepower, low-pressure compressor units that had been used primarily in dry gas service. Since the natural gas price collapse in 2009 these units had not been fully utilized and we did not forecast any significant future use for the equipment. The retirement idled 9% of our unit fleet count, but only 2% of the net book value. The equipment is being salvaged and we will be able to re-use a significant portion of it.

Not accounting for the effect of the equipment retirements, net income for the year was \$13.2 million and EBITDA (a non-GAAP measure commonly used as a proxy for operating cash flow) was \$42.4 million. This equates to 44% of revenue, a uniquely high level of cash generation. Along with this cash generation and the decrease in our capital expenses, NGS was able to increase our cash balance to \$35.5 million while maintaining our debt level at less than \$500,000.

NGS's relative common stock performance was gratifying. Our common stock decreased 3% during the calendar year 2015, while our public peers were down 43.5%, the OSX index (oil service sector) was off 25.2%, the U.S land rig count decreased 61.5% and the price of WTI crude oil fell 30.5%.

Although cost-cutting was a particular focus in 2015, NGS also took some aggressive actions to better position us when the market improves. Our new, larger horsepower compressor package was introduced (see cover) with the initial units set in the Rocky Mountain area. On the other end of the spectrum, we developed and introduced a line of smaller horsepower Vapor Recovery Units (VRUs). This type of equipment is being deployed on a more regular basis due to environmental regulations and we anticipate the start of a constantly growing market.

Commenting on 2016, the year started out with crude oil prices continuing their decline and recently bottoming in February in the mid-\$20 per barrel range. The industry and our customers reacted and NGS's equipment utilization and pricing continued to be under pressure. Although the price of oil has recovered somewhat, the drilling rig count continued to decline and there remains an extremely cautionary tone in the industry. We are starting to see some positive supply and demand indicators, but volatility will continue and any resumption in activity will take a few quarters to play out. I anticipate that 2016 will be the toughest year so far, but NGS is well-positioned to react and emerge as one of the strongest players in the market.

I want to thank our shareholders, employees and board members for their interest, work and support on behalf of NGSG this past year. Although down turning markets are unpredictable in their breadth and depth, I am confident that NGSG will emerge in a preferred position.

As always, you are invited to NGSG's annual meeting in Midland, Texas on June 16, 2016, beginning at 8:30 am CDT. The meeting will be held in the Board Room of the Midland Petroleum Club at 501 West Wall Street.



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

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



SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary proxy statement
- Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

NATURAL GAS SERVICES GROUP, INC.

(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which the transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

NATURAL GAS SERVICES GROUP, INC.
508 West Wall Street, Suite 550
Midland, Texas 79701

**Important Notice Regarding the Availability of Proxy Materials for the
Shareholder Meeting to be Held on Thursday, June 16, 2016**

**The proxy statement and annual report to shareholders are available at
www.proxyvote.com.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on Thursday, June 16, 2016**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Natural Gas Services Group, Inc., a Colorado corporation (the "Company"), will be held at the Petroleum Club of Midland, 501 West Wall Street, Midland, Texas 79701 on Thursday, June 16, 2016 at 8:30 a.m., Central Time, for the purpose of considering and voting upon proposals:

1. To elect one Director to serve until the Annual Meeting of Shareholders to be held in 2019, or until his successor is elected and qualified;
2. To consider an advisory vote on the Company's compensation programs for its named executive officers;
3. To approve the amendment and restatement of the 1998 Stock Option Plan to extend the plan's expiration date and increase the number of shares reserved for issuance under the plan by 250,000 shares;
4. To ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for 2016;
5. To consider an amendment to the Company's Bylaws to implement a majority voting standard in uncontested election of Directors; and
6. To transact such other business as may properly be presented at the meeting, or at any adjournment(s) of the meeting.

Only shareholders of record at the close of business on April 18, 2016 are entitled to notice of and to vote at the meeting and at any adjournment(s) of the meeting. On that day, 12,864,226 shares of our common stock were outstanding and entitled to vote. A complete list of our shareholders entitled to vote at the meeting will be available for examination at our offices in Midland, Texas during ordinary business hours for a period of ten (10) days prior to the annual meeting.

Our Board of Directors recommends that you vote **FOR** the (i) election of the director nominee named in this proxy statement, (ii) approval, on an advisory basis, of the compensation programs of our named executive officers, (iii) amendment and restatement of the 1998 Stock Option Plan, (iv) the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2016 and (v) amendment to the Company's Bylaws to implement a majority voting standard in uncontested election of Directors.

We cordially invite you to attend the meeting. To ensure your representation at the meeting, please vote promptly even if you plan to attend the meeting. Voting now will not prevent you from voting in person at the meeting if you are a shareholder of record and wish to do so.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Stephen C. Taylor

April 29, 2016

Stephen C. Taylor

Chairman of the Board, President and Chief Executive Officer

NATURAL GAS SERVICES GROUP, INC.

**508 West Wall Street, Suite 550
Midland, Texas 79701**

**PROXY STATEMENT
FOR THE
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON THURSDAY, JUNE 16, 2016**

GENERAL INFORMATION

We are providing this proxy statement to you as part of a solicitation by the Board of Directors of Natural Gas Services Group, Inc. for use at our 2016 Annual Meeting of Shareholders and at any adjournment or postponement that may take place. We will hold the meeting at the Petroleum Club of Midland, 501 West Wall Street, Midland, Texas 79701 on Thursday, June 16, 2016 at 8:30 a.m., Central Time.

We are taking advantage of Securities and Exchange Commission, or SEC, rules that allow us to deliver our proxy materials to our shareholders on the Internet. Under these rules, we are sending most of our shareholders a two-page notice regarding the Internet availability of proxy materials instead of a full set of proxy materials. If you receive this two-page notice, you will not receive printed copies of the proxy materials unless you specifically request them. Instead, this notice tells you how to access and review on the Internet all of the important information contained in the proxy materials. This notice also tells you how to submit your proxy card on the Internet and how to request to receive a printed copy of our proxy materials.

We expect to mail, or provide notice and electronic delivery of, this proxy statement and accompanying proxy card to shareholders beginning on or about May 5, 2016.

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QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE MEETING

Q: Why am I receiving these materials?

A: Our Board is providing these proxy materials to you in connection with our 2016 Annual Meeting of Shareholders, which will take place on Thursday, June 16, 2016. As a shareholder on the record date for the meeting, you are invited to attend the meeting. We also encourage you to vote on the matters described in this proxy statement.

Q: What information is contained in these materials?

A: This proxy statement includes information about the nominee for director and the other matters to be voted on at the meeting. The proxy statement also includes information about the voting process and requirements, the compensation of directors and some of our executive officers, and certain other required information.

Q: What can I vote on at the meeting?

A: There are five matters to be voted on at the meeting:

1. To elect one Director to serve until the Annual Meeting of Shareholders to be held in 2019, or until his successor is elected and qualified;
2. To consider an advisory vote on the Company's compensation programs for its named executive officers;
3. To approve the amendment and restatement of the Company's 1998 Stock Option Plan for another ten year term and increase the number of shares reserved for issuance under the plan by 250,000 shares of common stock;
4. To ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for 2016;
5. To consider an amendment to the Company's Bylaws to implement a majority voting standard in uncontested election of Directors; and
6. To transact such other business as may properly be presented at the meeting, or at any adjournment(s) of the meeting.

Q: How does the Board recommend that I vote on each of the matters?

A: Our Board recommends that you vote **FOR** the director nominee, **FOR** the amendment and restatement of the 1998 Stock Option Plan, **FOR** the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2016, and **FOR** the amendment to our Bylaws to implement majority voting in the uncontested election of Directors. With respect to Proposal 2, the Board of Directors recommends that you vote **FOR** approval, on an advisory basis, of the compensation programs of our named executive officers as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosure contained in the proxy statement set forth under the caption "Executive Compensation" of this proxy statement.

Q: Why did I receive a two-page notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

A: We are taking advantage of SEC rules that allow us to deliver proxy materials to our shareholders on the Internet. Under these rules, we are sending most of our shareholders a two-page notice regarding the Internet availability of proxy materials instead of a full set of proxy materials. If you receive this two-page notice, you will not receive printed copies of the proxy materials unless you specifically request them. Instead, this notice tells you how to access and review on the Internet all of the important information contained in the proxy materials. This notice also tells you how to submit your proxy card on the Internet and how to request to receive a printed copy of our proxy materials. Shareholders may also request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

Q: Can I receive next year's proxy materials by email?

A: Yes. All shareholders who have active email accounts and Internet access may sign up for email delivery of shareholder materials. To sign up, go to www.proxyvote.com and click on "Electronic Enrollment." If you have multiple registered or beneficial accounts, you need to enroll for each account. If you elect to receive proxy materials by email, we will not mail you any proxy-related materials next year. Your enrollment in the email program will remain in effect as long as your account remains active or until you cancel it.

Q: Who is entitled to vote at our annual meeting of shareholders?

A: Holders of our outstanding common stock on April 18, 2016, are entitled to one vote per share on each of the items being voted on at the meeting. We refer to this date as the Record Date. On the Record Date, we had 12,864,226 shares of common stock outstanding. We have no other classes of stock outstanding.

Q: What shares can I vote?

A: You can vote all shares you owned on the Record Date. These shares include (1) shares held directly in your name as the shareholder of record and (2) shares held for you as the beneficial owner through a stockbroker, bank or other nominee.

Q: What is the difference between holding shares as a shareholder of record and as a beneficial owner?

A: Most of our shareholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. There are some important distinctions between shares held of record and those owned beneficially.

Shareholder of Record

If your shares are registered in your name with our transfer agent, Computershare, you are the shareholder of record for those shares and are receiving proxy-related materials directly from us. As the shareholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the meeting.

Beneficial Owner

If your shares are held in a stock brokerage account, by a bank or other nominee (commonly referred to as being held in "street name") you are the beneficial owner of those shares. Your broker, bank or nominee is the shareholder of record and therefore has forwarded proxy-related materials to you as beneficial owner. As the beneficial owner, you have the right to direct your broker, bank or other nominee how to vote your shares and are also invited to attend the meeting. However, since you are not the shareholder of record, you may not vote your shares in person at the meeting unless you obtain a signed proxy from your broker, bank or nominee giving you the right to vote the shares.

Q: How do I vote if I am a shareholder of record (as described in the question and answer above)?

A: You can vote on the Internet or by telephone by following the instructions you received in the mail or by email. If you received a full printed set of our proxy materials in the mail, you can also vote by mail by signing and returning the proxy card provided with those materials. Finally, you can vote in person at the meeting.

Q: How do I vote if I am a beneficial owner (as described in the question and answer above)?

A: You can vote on the Internet or by telephone by following the instructions you received in the mail or by email. If you received a full printed set of our proxy materials in the mail, you can also vote by mail. You can vote in person at the meeting *only if you obtain a signed proxy from your broker, bank or nominee giving you this right.*

Q: Can I change my vote or revoke my proxy?

A: Yes. You can change your vote or revoke your proxy at any time before the final vote at the meeting. You can do this by casting a later proxy through any of the available methods described in the questions and answers above. If you are a shareholder of record, you can also revoke your proxy by delivering a written notice of your revocation to our Corporate Secretary at our principal executive office at 508 West Wall Street, Suite 550, Midland, Texas 79701. If you are a beneficial owner, you can revoke your proxy by following the instructions sent to you by your broker, bank or other nominee.

Q: What does it mean if I get more than one set of proxy-related materials?

A: It means you hold shares registered in more than one account. Follow the instructions in each set of proxy-related materials to ensure that all of your shares are voted.

Q: What is the quorum requirement for the meeting?

A: For a “quorum” to exist at the meeting, shareholders holding a majority of the votes entitled to be cast by the shareholders entitled to vote must be present in person or represented by proxy at the meeting. There must be a quorum for any action to be taken at the meeting (other than adjournment or postponement of the meeting). If you submit a properly completed proxy, even if you abstain from voting, then your shares will be counted for purposes of determining the presence of a quorum.

If a broker indicates on a proxy that it lacks discretionary authority as to certain shares to vote on a particular matter, commonly referred to as “broker non-votes,” those shares will still be counted for purposes of determining the presence of a quorum at the meeting. Please see the next question and answer for further information about “broker non-votes.”

Q: What are broker non-votes and how are broker non-votes and abstentions counted?

A: If you are a beneficial owner and hold your shares in street name and do not provide your broker or other nominee with voting instructions, the broker, bank, or other nominee will determine if it has the discretionary authority to vote on the particular matter. The New York Stock Exchange permits brokers to vote their customers' shares on routine matters when the brokers have not received voting instructions from the customers. The ratification of independent public accountants is an example of a routine matter on which brokers may vote. Brokers may not vote their customers' shares on non-routine matters unless they have received instructions from the customers. Non-voted shares on non-routine matters are referred to as broker non-votes. The ratification of the appointment of BDO USA, LLP as our independent public accountants for 2016 (Proposal 4) is a matter considered "routine" under application rules. The election of one director (Proposal 1), the advisory vote to approve the named executive officers compensation programs (Proposal 2), the approval of the amendment and restatement of the 1998 Stock Option Plan (Proposal 3) and the amendment to the Company's Bylaws to implement a majority voting standard in uncontested election of Directors (Proposal 5) are matters considered "non-routine" under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters. Abstentions and broker non-votes will have no effect on Proposal 1, as the election of a Director is determined by counting the votes actually cast where abstentions and broker non-votes are not treated as votes cast. With respect to the advisory vote to approve the named executive officers compensation programs (Proposal 2), the approval of the 1998 Stock Option Plan amendment and restatement (Proposal 3) and the amendment to the Bylaws (Proposal 5) where the vote required is a majority of votes present and entitled to vote, abstentions will be equivalent to a vote cast against the proposals and broker non-votes will have no effect.

Q: What is the voting requirement to approve each of the matters?

A: Directors are elected by a plurality of the votes cast at the Annual Meeting. This means that the nominee for election as Director who receives the greatest number of votes cast in favor of his or her election will be elected to the Board of Directors. The advisory vote on the compensation programs of our named executive officers, the amendment and restatement of the 1998 Stock Option Plan, ratification of the appointment of BDO USA, LLP as the Company's independent registered public accounting firm, and the amendment to the Bylaws to implement a majority voting standard in the uncontested election of Directors are approved if the votes cast in favor of the matter exceed the votes cast against the matter. If you are a beneficial owner and do not provide the shareholder of record with voting instructions, your shares may constitute broker non-votes for certain matters (as described in the question and answer immediately above). In tabulating the voting result for a proposal, shares that constitute broker non-votes are not considered as being entitled to vote on that proposal.

Q: How can I vote on each of the matters and how will the votes be counted?

A: In the election of directors, you may vote “FOR,” “AGAINST,” or “ABSTAIN” with respect to the nominee. If you elect to abstain from the election of directors, the abstention will not have any effect on the election of directors. In tabulating the voting results for the election of directors, only “FOR” and “AGAINST” votes are counted.

For the (i) advisory vote on compensation of our named executive officers, (ii) approval of the amendment and restatement of the 1998 Stock Option Plan, (iii) ratification of the appointment of BDO USA, LLP as our independent auditors and (iv) the amendment to the Bylaws to implement a majority voting standard in the uncontested election of Directors, you may vote “FOR,” “AGAINST,”

or “ABSTAIN” with respect to these four proposals. If you elect to abstain from voting on any of these proposals, the abstention will have the same effect as an “AGAINST” vote with respect to such proposal.

If you sign and return your proxy card or voting instruction form without giving specific voting instructions, your shares will be voted as recommended by our Board. If you are a beneficial holder and do not return a voting instruction form, your broker may only vote on the ratification of the appointment of BDO USA, LLP (Proposal 4).

Q: Who will count the votes?

A: Broadridge, an international investor relations company, is assisting us with the voting of proxies for our meeting. Prior to the meeting, Broadridge will provide us with a tabulation of the votes cast prior to the meeting. We believe that Broadridge will use procedures that are consistent with Colorado law concerning the voting of shares, the determination of the presence of a quorum and the determination of the outcome of each matter submitted for a vote. In addition, we will appoint a voting inspector at the meeting to count and tabulate any votes cast at the meeting.

Q: Who may attend the meeting?

A: All shareholders as of the Record Date may attend. Please bring to the meeting:

- proof of ownership such as: a copy of your proxy or voting instruction card; the two-page notice regarding the internet availability of proxy materials you received in the mail; or a copy of a brokerage or bank statement showing your share ownership as of the Record Date; and
- proof of *identification* such as a valid driver’s license or passport.

Q: How will voting on any other business be conducted?

A: We do not expect any matters to be presented for a vote at the meeting other than the five matters described in this proxy statement. If you grant a proxy, either of the officers named as proxy holders, Stephen C. Taylor and G. Larry Lawrence, or their nominees or substitutes, will have the discretion to vote your shares on any additional matters that are properly presented for a vote at the meeting and at any adjournment or postponement that may take place. If, for any unforeseen reason, our nominee is not available as a candidate for director, the persons named as the proxy holder will vote your proxy for another candidate or other candidates nominated by our Board.

Q: May I propose actions for consideration at next year’s meeting of shareholders?

A: Yes. For your proposal to be considered for inclusion in our proxy statement for next year’s meeting, we must receive your written proposal no later than December 19, 2016. If we change the date of next year’s meeting by more than 30 days from the date of this year’s meeting, then the deadline is a reasonable time before we begin to print and send our proxy materials. You should also be aware that your proposal must comply with SEC regulations regarding shareholder proposals.

Similarly, for you to raise a proposal (including a director nomination) from the floor at next year’s meeting, we must receive a written notice of the proposal no later than March 9, 2017. If we change the date of next year’s meeting by more than 30 days from the date of this year’s meeting, then we must receive your written proposal at least 150 days before the date of next year’s meeting for the proposal to be timely.

Q: Who is paying for this proxy solicitation?

A: We will pay the cost of soliciting the proxies. In addition, our officers, directors and employees may solicit proxies or votes in person, by telephone or by email. These people will not be paid any additional compensation for these activities. We will send copies of proxy-related materials or additional solicitation materials to brokers, fiduciaries and custodians who will forward these materials to the beneficial owners of our shares. On request, we will reimburse brokers and other persons representing beneficial owners of shares for their reasonable expenses in forwarding these materials to beneficial owners.

HOUSEHOLDING OF PROXY MATERIALS

In an effort to reduce printing costs and postage fees, we have adopted a practice called “householding.” Under this practice, shareholders who have the same address and last name and do not participate in email delivery of proxy-related materials will receive only one set of our proxy statement, annual report or notice of internet availability of proxy-related materials unless one or more of these people notifies us that he or she wishes to continue to receive individual copies.

If you share an address with another shareholder and receive only one set of proxy-related materials and would like to request a separate copy for this year’s annual meeting or for any future meetings, please: (1) call our Investor Relations contact at (432) 262-2700; (2) send an email message to alicia.dada@ngsgi.com; or (3) mail your request to Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701, Attn: Investor Relations. Similarly, you may also contact us through any of these methods if you receive multiple copies of the materials and would prefer to receive a single copy in the future.

PROPOSAL 1 - ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes (commonly known as a “staggered” Board), each class to be as nearly equal in number as possible. At each annual meeting of shareholders, members of one of the classes, on a rotating basis, are elected for a three-year term. The authorized number of Directors is currently set at nine. We currently have five directors serving on our Board. Our Board of Directors may fill the vacancies if a qualified candidate is vetted. The following table sets forth, by class, the members of our Board of Directors as of the date of this proxy statement:

Terms Expiring at the 2016 Annual Meeting	Terms Expiring at the 2017 Annual Meeting	Terms Expiring at the 2018 Annual Meeting
John W. Chisholm	Charles G. Curtis	David L. Bradshaw
	Stephen C. Taylor	William F. Hughes

Shareholders will be electing one Director at the meeting. The Board is recommending Mr. John Chisholm for re-election to the Board of Directors to serve a three year term expiring at the annual meeting of shareholders in 2019.

The persons named in the enclosed form of proxy will vote the shares represented by such proxy for the election of the nominee for Director named above unless other instructions are shown on the proxy card. If, at the time of the meeting, the nominee becomes unavailable for any reason, which is not expected, the persons entitled to vote the proxy will vote for such substitute nominee, if any, as they determine in their sole discretion, or we may reduce the size of the Board.

Biographical information and qualifications for the person nominated as a Director, and for each person whose term of office as a Director will continue after the 2016 Annual Meeting, is set forth below.

Nominee for Director for Term to Expire in 2019

John W. Chisholm

John W. Chisholm, 61, was appointed as a Director of Natural Gas Services Group in December 2006 to fill a vacancy created by expanding the size of the Board from seven to eight Directors and was first elected as a Director of Natural Gas Services Group at the annual meeting of shareholders held in June 2007. Mr. Chisholm is the founder of Wellogix, an oil and gas software company that develops software aimed at expediting the exchange of enterprise data and communication of complex engineered services. Prior to founding Wellogix, Mr. Chisholm co-founded and served as President of ProTechnics Company from 1985 until its sale to Core Laboratories in December of 1996. Mr. Chisholm served as Senior Vice President of Global Sales and Marketing of Core Laboratories until 1998, when he started Chisholm Energy Partners, an investment fund focused on mid-size energy service companies. From 2002 to 2009 Mr. Chisholm served on the Board of Directors of Flotek Industries, Inc., and became interim President in August 2009. In August 2010 Mr. Chisholm became President of the company and was appointed Chief Executive Officer in March 2012. Flotek Industries, Inc. is a public company which files reports under the Securities Exchange Act of 1934. Mr. Chisholm holds a Business Administration degree from Fort Lewis College in Colorado. He currently serves on the Editorial Advisory Board on Middle East Technology of the Oil & Gas Journal.

Mr. Chisholm brings significant natural resources experience to our Board, in connection with his background in supplying drilling and production related products and services to the oil, gas and mining industries, and his investment fund experience with mid-size energy service companies is an invaluable resource as the Company assesses its capital and liquidity needs.

In addition Mr. Chisholm's experience as a board member and executive officer of a public company provides us with a wealth of leadership and management skills.

Continuing Directors Whose Terms Expire in 2017

Charles G. Curtis

Charles G. Curtis, 83, has served as a Director of Natural Gas Services Group since April 2001. Since 2002, substantially all of Mr. Curtis' business activities have been devoted to managing personal investments. From 1992 until 2002, Mr. Curtis was the President and Chief Executive Officer of Curtis One, Inc., a manufacturer of aluminum and steel mobile stools and mobile ladders. From 1988 to 1992, Mr. Curtis was the President and Chief Executive Officer of Cramer, Inc., a manufacturer of office furniture. Mr. Curtis has a Bachelor of Science degree from the United States Naval Academy and a Master of Science degree in Aeronautical Engineering from the University of Southern California.

Mr. Curtis has been a long-standing member of the Board since prior to the Company's initial public offering in 2002 and as such he brings a wealth of knowledge regarding the Company's history, growth and industry. Through his manufacturing career and engineering educational background, Mr. Curtis assists the Board and the Company in connection with its compressor manufacturing business. As a past U.S. Naval Officer and U.S. Naval Academy graduate, Mr. Curtis also brings leadership skills to the Board and Company.

Stephen C. Taylor

Stephen C. Taylor, 62, has been President and Chief Executive Officer of Natural Gas Services Group since January 2005. He was elected as a Director of Natural Gas Services Group at the annual meeting of shareholders in June 2005. Effective January 1, 2006, Mr. Taylor was appointed Chairman of the Board of Directors. Immediately prior to joining Natural Gas Services Group, Mr. Taylor held the position of General Manager - US Operations for Trican Production Services, Inc. from 2002 through 2004. Mr. Taylor joined Halliburton Resource Management in 1976, becoming its Vice President - Operations in 1989. Beginning in 1993, he held multiple senior level management positions with Halliburton Energy Services until 2000 when he was elected Senior Vice President/Chief Operating Officer of Enventure Global Technology, LLC, a joint-venture deep water drilling technology company owned by Halliburton Company and Shell Oil Company. Mr. Taylor elected early retirement from Halliburton Company in 2002 to join Trican Production Services, Inc. Mr. Taylor holds a Bachelor of Science degree in Mechanical Engineering from Texas Tech University and a Master of Business Administration degree from the University of Texas at Austin.

Mr. Taylor's senior management experience in the natural resources industry provides the Board and our company with significant insight into our business. Mr. Taylor's engineering and advanced business training (MBA) uniquely suits him to provide leadership, technical expertise and financial acumen to our Board and to the operations of our company in connection with his position as our chief executive officer.

Continuing Directors Whose Terms Expire in 2018

David L. Bradshaw

David L. Bradshaw, 61, joined our board in December of 2011. Since 2005, Mr. Bradshaw has acted as a consultant in the oil and gas exploration and production sector and has overseen his investments in this area. From August 2007 through November 2009, Mr. Bradshaw served as a Director and Audit Committee Chairman for Triangle Petroleum, a publicly traded company listed on the American Stock Exchange. From November 2007 through November 2008, Mr. Bradshaw served as a Director for Comet Ridge Limited, an Australian company listed on the Australian Securities Exchange. From 1986 to 2005, Mr. Bradshaw worked for Tipperary Corporation, a U.S. public company listed on the American Stock Exchange. During his tenure at Tipperary, the company was involved in oil and gas exploration and production, and natural gas processing and transportation. He held the positions of Chief Executive Officer from 1996 to 2005, Chairman of the Board from 1997 to 2005, Chief Financial Officer from 1990 to 1996 and Chief Operating Officer from 1993 to 1996. Mr. Bradshaw also served as Chief Executive Officer and Chairman of Tipperary Oil & Gas (Australia) Pty Ltd from 1999 to 2005, a subsidiary of Tipperary, which explored for and produced natural gas in Queensland, Australia. From 1983 to 1986, Mr. Bradshaw was an owner and officer of Bradcorp, Inc. a private exploration and production company. Prior to this, Mr. Bradshaw spent six years in public accounting serving predominantly oil and gas clients. Mr. Bradshaw graduated from Texas A&M University with a BBA in Accounting in 1976 and a MBA in 1977, and is also a Certified Public Accountant.

Mr. Bradshaw's educational and professional training and achievements as a Certified Public Accountant and MBA, along with his past experience as both a Chief Financial Officer and Chief Executive Officer of a public company involved in the natural resources industry, provides us with considerable accounting and corporate finance skills. In addition, Mr. Bradshaw's career spanning over thirty years in the oil and gas industry and as a public accountant adds to his value in his position on our Audit Committee. His executive management positions in both private and public companies bring us significant leadership, planning and management skills and background.

William F. Hughes, Jr.

William F. Hughes Jr., 63, has served as a Director since December 2003. Mr. Hughes has over 30 years of experience in the engineering and construction industry as a Registered Civil Engineer and licensed building contractor. From 1974 to 1979, he served as an officer in the United States Air Force. From 1979 to 1986, he was a project design engineer for Cushman & Associates. From 1986 to 1996, he served as a Project Manager on a variety of public works and industrial construction projects. Since 1983, Mr. Hughes has been co-owner of The Whole Wheatery, LLC, a natural foods store located in Lancaster, California. Mr. Hughes holds a Bachelor of Science degree in Civil Engineering from the United States Air Force Academy and a Master of Science in Engineering from the University of California at Los Angeles.

Mr. Hughes' career experience in the engineering and construction industry brings us invaluable skills which are applicable to our manufacturing processes. In addition, Mr. Hughes provides leadership skills arising from his service as an officer with the U.S. Air Force and U.S. Air Force Academy graduate.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Natural Gas Services Group's Board of Directors held four meetings in 2015. Each Director attended at least 75% of the total number of Board meetings held while such person was a Director. Each Director also attended at least 75% of all of the meetings held by all committees of the Board of Directors for which he served (during the periods that he served). The Board of Directors acts from time to time by unanimous written consent in lieu of holding a meeting.

Our non-management directors hold regularly scheduled executive sessions in which those directors meet without management participation. The Chairman of the Governance and Personnel Development Committee has presided over these sessions. In April 2016, the board established a Lead Director role, and assigned those duties to the Lead Director. Charles G. Curtis is currently the Lead Director.

We typically schedule a Board meeting in conjunction with our annual meeting of shareholders. Although we do not have a formal policy on the matter, we expect our Directors to attend each annual meeting, absent a valid reason, such as illness or an unavoidable schedule conflict. Last year, all of the individuals then serving as Directors attended our 2015 Annual Meeting of Shareholders.

To assist it in carrying out its duties, the Board has delegated certain authority to four separately designated standing committees. These committees are described below.

Audit Committee

The primary functions of our Audit Committee include:

- assisting the Board in fulfilling its oversight responsibilities as they relate to our accounting policies, internal controls, financial reporting practices and legal and regulatory compliance;
- hiring our independent registered public accounting firm;
- monitoring the independence and performance of our independent registered public accounting firm;
- maintaining, through regularly scheduled meetings, a line of communication between the Board, our financial management and independent registered public accounting firm; and
- overseeing compliance with our policies for conducting business, including ethical business standards.

The members of the Audit Committee are David L. Bradshaw (Chairman), Charles G. Curtis, and William F. Hughes, Jr. Our common stock is listed for trading on the New York Stock Exchange, or "NYSE". Under rules of the NYSE, the Audit Committee is to be comprised of three or more Directors, each of whom must be independent. Our Board has determined that all of the members of the Audit Committee are independent, as defined under the applicable NYSE rules and listing standards. In addition, our Board of Directors has determined that David L. Bradshaw is qualified as an "audit committee financial expert" as that term is defined in the rules of the Securities and Exchange Commission. The Audit Committee met nine times during the last fiscal year. The audit committee has also received from, and discussed with, BDO the matters required to be discussed by Public Accounting Oversight Board Auditing Standard No. 16. (Communications with Audit Committees).

Any shareholder may obtain free of charge a printed copy of our Audit Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. You can also view and print a copy of our Audit Committee Charter by clicking on the "Governance" tab at the Investor Relations page of our website at www.ngsgi.com.

Compensation Committee

The functions of our Compensation Committee include:

- assisting the Board in overseeing the management of our human resources;
- evaluating our Chief Executive Officer's performance and compensation;
- formulating and administering our overall compensation principles and plans; and
- evaluating management.

The Compensation Committee's policy is to offer the executive officers competitive compensation packages that will permit us to attract and retain individuals with superior abilities and to motivate and reward such individuals in an appropriate fashion in the long-term interests of Natural Gas Services Group, Inc., and its shareholders. Currently, executive compensation is comprised of salary and cash bonuses and awards of long-term incentive opportunities in the form of restricted stock awards under the 2009 Restricted Stock/Unit Plan.

The members of the Compensation Committee are William F. Hughes, Jr. (Chairman), John W. Chisholm and David L. Bradshaw. Our Board has determined that all of the members of the Compensation Committee are independent, as defined under the applicable NYSE rules and listing standards. During the last fiscal year there were six meetings of the Compensation Committee.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee members are not officers or employees of our company, and there is not, nor was there during fiscal 2015, any compensation committee interlock (in other words, no executive of our company serves as a Director or on the compensation committee of a company that has one or more executives serving on our Board of Directors or our Compensation Committee).

Any shareholder may obtain free of charge a printed copy of our Compensation Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. You can also view and print a copy of our Compensation Committee Charter by clicking on the "Governance" tab at the Investor Relations page of our website at www.ngsgi.com.

Governance and Personnel Development Committee

Our Governance and Personnel Development Committee primarily focuses on:

- generally overseeing the governance of the Board and its committees;
- interpreting the Governance Guidelines, the Code of Business Conduct and Ethics and other similar governance documents adopted by the Board; and
- overseeing the evaluation of the Board and its committees.

The members of the Governance and Personnel Development Committee are Charles G. Curtis (Chairman), John W. Chisholm and William F. Hughes, Jr. Our Board has determined that each of the Governance and Personnel Development Committee members is independent, as defined under the applicable NYSE rules and listing standards. During the last fiscal year there were four meetings of the Governance and Personnel Development Committee.

Any shareholder may obtain free of charge a printed copy of our Governance Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. You can also view and print a copy of our Governance Committee Charter by clicking on the "Governance" tab at the Investor Relations page of our website at www.ngsgi.com.

Nominating Committee

The functions of our Nominating Committee include:

- identifying individuals qualified to become board members, consistent with the criteria approved by the Board;
- recommending Director nominees and individuals to fill vacant positions; and
- overseeing executive development and succession and diversity efforts.

The members of the Nominating Committee are John W. Chisholm (Chairman), David L. Bradshaw, and Charles G. Curtis. Our Board of Directors has determined that each of the Nominating Committee members is independent as defined under the applicable NYSE rules and listing standards. During the last fiscal year there were four meetings of the Nominating Committee.

Any shareholder may obtain free of charge a printed copy of our Nominating Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. You can also view and print a copy of our Nominating Committee Charter by clicking on the “Governance” tab at the Investor Relations page of our website at www.ngsg.com. Our Nominating Committee does not have a diversity policy; however, as discussed below, the Committee’s goal is to nominate candidates who possess a range of experiences and backgrounds which will contribute to the board’s overall effectiveness in meeting its duties and forwarding the goals of our company.

Our Nominating Committee will consider a Director candidate recommended by a shareholder. A candidate must be highly qualified in terms of business experience and be both willing and expressly interested in serving on the Board. A shareholder wishing to recommend a candidate for the Committee’s consideration should forward the candidate’s name and information about the candidate’s qualifications to Natural Gas Services Group, Inc., Nominating Committee, 508 West Wall Street, Suite 550, Midland, Texas 79701, Attn.: John W. Chisholm. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment history for at least the past five years indicating employers' names and description of the employer’s business, educational background and any other biographical information that would assist the Committee in determining the qualifications of the individual. The Committee will consider recommendations received by a date not later than 120 calendar days before the date our proxy statement was released to shareholders in connection with the prior year’s annual meeting for nomination at that annual meeting. The Committee will consider nominations received after that date at the annual meeting subsequent to the next annual meeting.

The Committee evaluates nominees for Directors recommended by shareholders in the same manner in which it evaluates other nominees for Directors. Minimum qualifications include the factors discussed above.

Director Independence

The Board has determined that each of the following four members of the Board is “independent” within the meaning of applicable listing standards of the NYSE and under the standards, set forth in Exhibit A to our Governance and Personnel Development Charter, (“Governance Charter”) which are consistent with the NYSE listing standards: David L. Bradshaw, John W. Chisholm, Charles G. Curtis, and William F. Hughes, Jr. A copy of Exhibit A to our Governance Charter is available at our website, www.ngsg.com, under the heading “Investor Relations—Governance.” The Board has made an affirmative determination that each of the four directors named above satisfies these categorical standards. In making its determination, the Board examined relationships between directors or their affiliates with us and our affiliates and determined that each such relationship, if any, did not impair the director’s independence.

The Board's Leadership Structure

Under our Corporate Governance Guidelines, our Chief Executive Officer also serves as our Chairman of the Board, and that person is responsible to the Board for the overall management and functioning of the company. Stephen C. Taylor serves as both Chairman of the Board and our President and Chief Executive Officer ("CEO"). The Board believes this is the most effective Board leadership structure at the present time and believes that Mr. Taylor, in his role as Chairman/CEO, has the ability to execute on both our short-term and long-term strategies necessary for the challenging marketplace in which we compete. The independent directors believe that Mr. Taylor's detailed and in-depth knowledge of the issues, opportunities and challenges facing us and our business make him the best qualified director to develop agendas that ensure that the Board's time and attention are focused on the most critical matters. Further, as the individual with primary responsibility for managing day-to-day operations, Mr. Taylor is best positioned to chair regular Board meetings and ensure that key business issues and risks are brought to the attention of our Board and/or Audit Committee.

Each of our directors, other than Mr. Taylor, is independent, and the Board believes that the independent directors provide effective oversight of management. The Board may subsequently decide, however, to change that leadership structure which would require a revision to our Corporate Governance Guidelines. The Board believes that it has in place safeguards to ensure that we maintain the highest standards of corporate governance and continued accountability of the CEO to the Board. These safeguards include:

- All members of the Board are independent directors except for Mr. Taylor.
- Each of the Board's standing committees, including the Audit, Compensation, Governance and Nominating Committees, are comprised of and chaired solely by non-employee directors who meet the independence requirements under the NYSE listing standards and other governing laws and regulations. As noted above, these committees meet frequently.
- Review and determination of Mr. Taylor's compensation and performance remains within the purview of the Compensation Committee.
- The independent directors continue to meet in executive sessions without management present to discuss the effectiveness of the company's management, the quality of the Board meetings and any other issues and concerns.

Lead Director

To promote the independence of the Board and appropriate oversight of management and to demonstrate our commitment to strong corporate governance, the independent directors designate an independent, non-employee director to serve as our Lead Director. The Lead Director helps to facilitate free and open discussion and communication among the independent, nonemployee directors. The responsibilities of the Lead Director are set forth in our Corporate Governance Guidelines, which is available under "Investor Relations - Governance Documents" on our website at www.ngsgi.com. Charles G. Curtis was appointed Lead Director in April 2016.

Role in Risk Oversight

Our Board of Directors oversees the management of risks inherent in the operation of our business and the implementation of our strategic plan. Our executive management is responsible for the day-to-day management of risks we face. The Board is periodically advised by management on the status of various factors that could impact our business and operating results, including oil and gas industry issues, operational issues (such as compressor manufacturing issues and backlog for compressor equipment), legal and regulatory risks. The full Board is also responsible for reviewing our strategy, business plan, and capital expenditure budget.

Our Board committees assist the Board in fulfilling its oversight responsibilities in certain areas of risk. Our Audit Committee serves an important role in providing risk oversight, as further detailed in its charter. One of the Audit Committee's primary duties and responsibilities is to monitor the integrity of our financial statements, financial reporting processes, systems of internal controls regarding finance, and disclosure controls and procedures. The Compensation Committee assists the Board with risk management relating to our compensation policies and programs, and the Governance and Nominating Committee assists with risk management relating to Board organization, membership and structure, succession planning for our directors and executive officers, and corporate governance.

SHAREHOLDER ENGAGEMENT

The Natural Gas Service's Board of Directors believes that building long-term relationships with all Company stakeholders is vital to our strategy for corporate governance. Our shareholders, who invest in our company and elect the board of directors, are entitled to important information about the company's business, policies and practices so they can make informed decisions and knowledgeably participate in the governance process.

The Company's executive management has directly engaged shareholders throughout the year in many diverse ways including quarterly conference calls, investor and industry conferences and individual meetings initiated by both the Company and shareholders. It is our policy to actively engage our shareholders in dialogue about our business condition, the structure of our business and certain governance issues, including executive compensation. The Compensation Committee considers the annual stockholders advisory vote, as well as other stockholder input, when reviewing executive compensation programs, principles and policies.

As a result of critiques of our executive compensation plan and the resulting advisory vote on our executive compensation structure, we directly engaged key institutional shareholders in a number of ways including supplemental proxy materials providing additional descriptive information on our overall executive compensation structure. In addition, since our last Annual Meeting, the Company's executive management has directly engaged many of our institutional shareholders in discussions about our executive compensation program. Specifically, we have discussed our executive compensation program with a number of our top twenty actively managed holders and met with approximately 75 institutional shareholders since our last annual meeting. As a result of those conversations, the Board has considered and adopted certain adjustments to our executive compensation process and policies. See "Executive Compensation" beginning on page 16.

CODE OF ETHICS

Our Board of Directors has adopted a Code of Business Conduct and Ethics, or “Code”, which is posted on our website at www.ngsgi.com. You may also obtain a copy of our Code by requesting a copy in writing at 508 West Wall Street, Suite 550, Midland, Texas 79701 or by calling us at (432) 262-2700.

Our Code provides general statements of our expectations regarding ethical standards that we expect our Directors, officers and employees, including our Chief Executive Officer and principal financial officer, to adhere to while acting on our behalf. Among other things, the Code provides that:

- we will comply with all laws, rules and regulations;
- our Directors, officers and employees are to avoid conflicts of interest and are prohibited from competing with us or personally exploiting our corporate opportunities;
- our Directors, officers and employees are to protect our assets and maintain our confidentiality;
- we are committed to promoting values of integrity and fair dealing; and that
- we are committed to accurately maintaining our accounting records under generally accepted accounting principles and timely filing our periodic reports.

Our Code also contains procedures for our employees to report, anonymously or otherwise, violations of the Code.

EXECUTIVE OFFICERS

Biographical information for the executive officers of Natural Gas Services Group who are not Directors is set forth below. There are no family relationships between any Director or executive officer and any other Director or executive officer. Executive officers serve at the discretion of the Board of Directors and until their successors have been duly elected and qualified, unless sooner removed by the Board of Directors. Officers are elected by the Board of Directors annually at its first meeting following the annual meeting of shareholders.

G. Larry Lawrence, 65, became our Chief Financial Officer, Principal Accounting Officer and Corporate Secretary on July 1, 2011. Previously, Mr. Lawrence was our Controller since September 2010. From June 2006 to August 2010, Mr. Lawrence was self-employed as a management consultant doing business as Crescent Consulting. Overlapping this time, from September 2006 to August 2009, he also served as the CFO of Lynx Operating Company. Lynx is a private company engaged in oil and gas production and gas processing activities. From May 2004 through April 2006, Mr. Lawrence served as Controller of Pure Resources, an exploration and production company and wholly owned subsidiary of Unocal Corporation which was acquired by Chevron Corporation. From June 2000 through May 2004, Mr. Lawrence was a practice manager of the Parson Group, LLC, a financial management consulting firm whose services included Sarbanes Oxley engagements with oil and natural gas industry clients. From 1973 through May 2000, Mr. Lawrence was employed by Atlantic Richfield Company where he most recently (from 1993 through 2000) served as Controller of ARCO Permian. Since May 2006, Mr. Lawrence serves as a director of Legacy Reserves, LP. Mr. Lawrence has a Bachelor of Arts in Accounting, with honors, from Dillard University.

James R. Hazlett, 60, has served as Vice President-Technical Services since June 2005. He also served as Vice President of Sales of Screw Compression Systems, Inc. from 1997 until June 2007 when Screw Compression Systems, Inc. was merged into Natural Gas Services Group. After the merger in June 2007, Mr. Hazlett continues to remain employed by Natural Gas Services Group as Vice President-Technical Services. From 1982 to 1996, Mr. Hazlett served in management roles for Ingersoll Rand/Dresser Rand working with compression of all types in several different departments from sales and service to engineering. From 1978 to 1982, Mr. Hazlett was employed by the down-hole tool division of Hughes Tool designing and installing gas lift and plunger systems. Mr. Hazlett holds a Bachelor of Science degree from the College of Engineering at Texas A&M University and has over 38 years of industry experience.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Discussion and Analysis

This compensation discussion and analysis provides information regarding our executive compensation program in 2015 for the following executive officers of the Company (collectively, the "named executive officers").

Stephen C. Taylor, our Chairman, President, and Chief Executive Officer;
G. Larry Lawrence, our Chief Financial Officer; and
James R. Hazlett, our Vice President-Technical Services.

Introduction and Overview

The Compensation Committee or, the "Committee," of the Board of Directors is responsible for determining the types and amounts of compensation we pay to our executives. The Committee operates under a written charter that you can view on our website at www.ngsgi.com. The Board of Directors has determined that each member of the Committee meets the independence and financial literacy requirements of the NYSE. The Board determines, in its business judgment, whether a particular Director satisfies the requirements for membership on the Committee set forth in the Committee's charter. None of the members of the Committee are current or former employees of Natural Gas Services Group.

The Committee is responsible for formulating and administering our overall compensation principles and plans. This includes establishing the compensation paid to our CEO, meeting and consulting with our CEO to establish the compensation paid to our other executive officers, counseling our CEO as to different compensation approaches, administering our stock equity plans, monitoring adherence to our compensation philosophy and conducting an annual, and sometimes more frequent, review of our compensation programs and philosophy regarding executive compensation.

The Committee periodically meets in executive session without members of management or management Directors present and reports to the Board of Directors on its actions and recommendations.

Compensation Philosophy and Objectives

Our compensation philosophy is to provide an executive compensation program that:

- rewards performance and skills necessary to advance our objectives and further the interests of our shareholders;
- is fair and reasonable and appropriately applied to each executive officer;
- is competitive with compensation programs offered by our competitors; and
- serves as an adequate retention tool in a competitive market.

The overall objectives of our compensation philosophy are to:

- provide a competitive level of current annual income that attracts and retains qualified executives at a reasonable cost to us;
- retain and motivate executives to accomplish our company goals;
- provide long-term incentive compensation opportunities at levels appropriate for the respective responsibilities and performance of each executive;
- align compensation and benefits with our business strategies and goals;
- encourage the application of a decision making process that takes into account both short-term and long-term risks and the sometimes volatile nature of our industry; and
- align the financial interests of our executives with those of our shareholders through the potential grant of equity based rewards.

Our Committee supports these objectives by emphasizing compensation arrangements that we believe are reasonable and will attract and retain qualified executives and reward them for their efforts to further our long-term growth and success. At the same time, we remain cognizant of and aim to balance our executive compensation arrangements with the interests and concerns of our shareholders.

The following summary highlights our commitment to executive compensation practices that align the interests of our executives and stockholders:

WHAT WE DO

- ✓ **Fully independent compensation committee** - permits the establishment of competitive compensation practices and the measurement of actual performance in a conflict-of-interest free environment

- ✓ **Broad-based retirement programs** - all of our retirement plans are broad-based and are provided to all full-time employees in addition to our executive officers

- ✓ **Independent compensation consultant** - the Committee annually engages its own independent compensation consultant to assist with its compensation reviews

- ✓ **Annual review** - the Committee conducted its annual review and approval of the Company's compensation strategy, including a review of our compensation peer group used for comparative purposes and a review of our compensation related risk profile to ensure that such risks are not reasonably likely to have a material adverse effect on the Company

- ✓ **Risk mitigation** - we have certain controls in place (signature authority, governance policies, SOX processes, etc.) and an analysis is conducted on a quarterly basis

- ✓ **Double-trigger employment** - our change-in-control payments and benefits with our Chief Executive Officer are based on a "double-trigger" provision

- ✓ **Stock ownership guidelines** - stringent ownership policies for Directors and CEO

- ✓ **Clawback policy** - applicable to NEO's ("named executive officers") and other executive officers

WHAT WE DON'T DO

- ✗ **No gross-ups** - executive officers are not eligible to receive any tax reimbursement payments or "gross-ups" in connection with any severance or change-in-control payments or benefits

- ✗ **Limited perquisites** - with the exception of a car allowance for our officers and certain nominal expense reimbursements as detailed in the Summary Compensation Table that follows this CD&A, we do not provide any perquisites

- ✗ **Prohibition of hedging and pledging shares** - we do not permit hedging or pledging as collateral for a loan nor do we permit our executives or non-employee directors to engage in any derivatives trading with respect to our common stock

- ✗ **No stock option exchanges or repricing** - we do not allow for stock option exchanges or the repricing of outstanding stock options without stockholder approval

- ✗ **No related party transactions** - we do not have any related party transactions

We have chosen to implement a relatively streamlined compensation framework for our executives. We feel that our compensation philosophies and practices are appropriate given our relatively small size as a public company. By continuing a relatively streamlined compensation framework for our executives, we believe that we are able to establish a higher degree of transparency, understanding and certainty for our executives as well as the investing public, while at the same time avoiding complex benefit packages and agreements that can be, in some ways, difficult to understand and require significant time and cost to properly administer. In the end, we believe our compensation arrangements provide the desired results: fair and reasonable pay for achievements beneficial to Natural Gas Services Group, Inc. and its shareholders.

Advisory Vote on Compensation; Shareholder Engagement

At our 2015 Annual Meeting, less than 50% of the votes cast on the annual advisory "Say-on-Pay" proposal were cast in support of the compensation of our named executive officers. This was significantly lower than the support levels of previous years. The results were disappointing since we believe the vote was the result of the influence of recommendations of certain proxy advisory firms, both of which advise institutional investors on voting on annual proxy matters. We believe that their reports contained factual errors and assumptions that resulted in questionable conclusions and recommendations. Our specific objections to their reports were detailed in supplementary proxy materials that were distributed last year. It is important to note that while the proxy advisory firms felt that our general compensation structure was lacking in some areas there was no lack of alignment in their 'pay for performance' metric and, in fact, they complimented the compensation committee for their continued rigor in setting financial targets.

Although this was a non-binding advisory vote, the Company's Board of Directors takes the results of this vote seriously, and during 2015 the Company's Board of Directors and executive management deliberated extensively over the results of last year's "Say-on-Pay" vote and engaged in meaningful review of its corporate governance and executive compensation matters with advisors as well as other stakeholders.

While the Compensation Committee and full Board believes that our executive compensation program and corporate governance policies are strong and have served us well, it recognizes the changing compensation and governance landscape.

Below is a summary of what we heard and the actions we took in response:

Compensation and Governance Concerns	Responses to the Concerns
Insufficient Risk Mitigators (i.e., lack of clawback policy and stock ownership guidelines)	We have adopted both a Clawback Policy covering our executive officers and Stock Ownership Guidelines covering our executive officers and members of our Board of Directors. We do note that our company has never had a financial restatement and that each officer and director presently maintains their stock holdings in excess of the minimum guidelines.
One Year Vesting of Restricted Stock Grants to Executive Officers	The Compensation Committee approved a new framework for our long-term equity compensation. With respect to our recent restricted stock awards to our executive officers for fiscal 2015 (granted in early 2016), such awards vest over two years and future awards will vest in one-third increments over three years.
Excessive Cash Severance	We do not feel that the cash severance benefits for our Chief Executive Officer are excessive. Any change of control severance requires a 'double-trigger' to be payable and the triggers are limited to the standard "good reason" events (see page 43). We believe the severance benefits are within the norms of companies in our industry that exhibit a similar performance profile that we do, i.e., industry leading total shareholder returns in each of the past one, three and five year periods. Please see the charts on page 23 and the 2015 performance achievements below. The cash severance due to our CEO in connection with "good reason" events (typically be an involuntary occurrence) equates to approximately three years of total compensation based upon a year of good performance, which the Company has consistently demonstrated.
Lack of Lead Independent Director	We have had an appointed lead director for years, but have amended our Corporate Governance Guidelines to include the public identification and acknowledgment of a lead independent director. Charles G. Curtis, our longest tenured independent director, has been formally appointed as our lead director.
Targeting 75th percentile for CEO's total compensation	Our CEO's total compensation (base pay and short and long term incentives) has been between the 50th and 75th percentile when compared to peer group companies with the final approved compensation being a combination of the CEO's and the Company's performance. Typically, although it can vary, base salary of our CEO has been in the 50th percentile range while long term incentives are employed to increase the compensation package to competitive levels. This allows the Compensation Committee to annually adjust the CEO's long term incentives in keeping with shareholder returns and Company performance. We think this is an appropriate alignment of pay relative to performance of the company and the competitive market. Supporting this practice is the fact that the Company has performed in the top 15% to 25% of peer group companies for Total Shareholder Return in the last one, three and five year periods (please see pages 22 and 23 for relevant data). Our Compensation Committee believes this performance has justified total compensation being awarded in the 75 th percentile range in recent years. However, in the future, if the relative performance of the Company lags our peer group of companies, then the CEO's total compensation will be evaluated under those circumstances.
Awarding long-term equity awards on a purely discretionary basis with minimum awards guaranteed	In the future, long-term equity awards will be based on a combination of the relative TSR (Total Shareholder Return) of the Company when compared to our peer group of companies and a discretionary component that shall be evaluated by the Compensation Committee.

In addition to the foregoing, other concerns made by the proxy advisory firms are discussed elsewhere in this section.

Fiscal Year 2015 Performance

In 2015, our financial performance demonstrated extremely positive results and continued to demonstrate a financial condition that provided stability and excellent shareholder value in a very challenging time for a service company in the oil and gas industry. Some of our financial and operational highlights include:

- Increasing cash and cash equivalents from \$6.2 million to \$35.5 million in 2015;
- Maintained long-term debt at a continuing, very low level (less than \$500,000);
- Total revenue decreased only 1.1% in 2015 compared to 2014, a record revenue year. This made 2015 the second highest revenue year in the company's history, a significant achievement considering the operating environment in 2015;
- Decreasing capital expenditures from \$53.3 million in 2014 to \$12.5 million in 2015 demonstrating a timely and quick response to the deteriorating oil and gas industry environment;
- The Company has self-funded growth capital expenditures in excess of \$185 million since 2010;
- Operating cash flow as a percentage of revenue was 43% in 2015, increasing from 35.6% in 2014, making the Company an industry leader in this category;
- Free cash flow (operating cash flow less capital expenditures) as a percentage of revenue was 30.3% in 2015 compared to (19.4%) in 2014, and compared to the S&P500 in reporting 9% in 2015 when compared to 2014;
- Maintained adjusted EBITDA (as defined on page 24) at 44-45% of revenue in both years while limiting 2015 adjusted EBITDA deterioration to only 3% in 2015;
- Increased average gross margins in our core rental business from 60% in 2014 to 62% in 2015, notwithstanding continuing pressures on revenue and pricing due to the significant fall-off in oil and gas industry;
- Increased compressor sales revenues by 27% from 2014 to 2015;
- Maintained SG&A expenses at 11% of total revenue in both 2014 and 2015 -- the lowest among our public peers;
- Finalized development, and introduced two new gas compression products, a 500 horsepower CiP compressor frame/package and a 50HP-100Hp Vapor Recovery Unit (VRU) product line; and
- For 2015, the Company's common stock price slipped only 3%, while identified public peers were down 43.5%, the OSX index (oil service sector) was off 25.2%, West Texas Intermediate (WTI) fell 30.5% and the U.S. land rig count decreased by 61.5%.

Elements of Our Compensation Program

In order to achieve the objectives set forth above in our compensation philosophy and objectives, we have structured an executive compensation program that provides our named executive officers with the following:

Element	Characteristics	Primary Objective
Base Salary	Cash	Attract and retain highly talented individuals
Short-Term Incentives	Cash-based performance awards	Reward for corporate and individual performance
Long-Term Incentives	Restricted stock with vesting period	Align the interests of our employees and shareholders by providing employees with incentive to perform technically and financially in a manner that promotes share price appreciation
Other Benefits	401(k) matching plans and employee health benefit plans	Provide benefits that promote employee health and support employees in attaining financial security

We do not presently and have not in the past used any of the following types of executive compensation:

- defined benefit pension plans;
- employee stock purchase/ownership plans; or
- supplemental executive retirement plans/benefits.

Assistance Provided to the Committee

The Committee makes all compensation decisions regarding our executive officers. Stephen C. Taylor, our Chief Executive Officer, annually reviews the performance of each of our executive officers (other than the Chief Executive Officer whose performance is reviewed by the Committee) and presents recommendations to the Committee with respect to salary and cash bonus percentage adjustments and restricted stock grants for our executives (other than the Chief Executive Officer whose salary, cash bonus percentage adjustments and restricted stock grants are determined solely by the Committee). The Committee may exercise its discretion in modifying any recommendations made by our Chief Executive Officer.

The Committee also seeks the input and insight of Mr. Taylor concerning specific factors that Mr. Taylor believes to be appropriate for the Committee's consideration and which the Committee may not be aware of, such as extraordinary efforts or accomplishments of our executive officers. Mr. Taylor also advises the Committee on general topics such as the morale of our executives.

Natural Gas Services Group's accounting and human resources departments assist the Committee in the compensation process by gathering and organizing data, which is then presented to the Committee by Mr. Taylor for the Committee's review.

In late 2012, our Compensation Committee hired an independent compensation consultant, Longnecker & Associates ("Longnecker"), to obtain objective, expert advice and assist with compensation matters concerning our Chief Executive Officer and Directors. Longnecker advised the Compensation Committee on a variety of compensation related issues in 2015 with respect to our Chief Executive Officer, including:

- competitive pay analysis on executive compensation;
- pay levels of Chief Executive Officers; and
- our executive compensation program design, including short-term incentive plan design, long-term incentive plan design, and pay mix.

In the course of conducting its activities, Longnecker communicated with the Compensation Committee and presented its findings and recommendations for discussion. During 2015, Longnecker also met with our Chief Executive Officer to review its compensation report.

In 2014 and 2015, Longnecker did not provide any services to the Company, or receive any payments from the Company, other than in its capacity as a consultant to the Compensation Committee. The Compensation Committee has assessed whether

the services provided by Longnecker raised any conflicts of interest pursuant to the SEC rules, and has concluded that no such conflicts of interest existed during 2014 or 2015.

Competitive Pay Analysis

To evaluate the competitiveness of our Chief Executive Officer's base salary, target total cash compensation (i.e., base salary plus target short-term cash incentive award), long-term incentive awards, and total direct compensation (i.e. base salary, target short-term cash incentive award, and long-term incentive awards), Longnecker annually provides the Committee competitive pay information derived from a custom peer group that is reviewed each year (the "Custom Peer Group") and referred to a variety of published compensation surveys. The companies comprising the Custom Peer Group in Longnecker's compensation report used in connection with 2015 included:

NGS Custom Peer Group

Company Name	Company Description
Gulfmark Offshore, Inc.	GulfMark Offshore, Inc. provides offshore marine support and transportation services primarily to companies involved in the offshore exploration and production of oil and natural gas.
Archrock Partners, LP	Archrock Partners, L.P. provides natural gas contract operations services to customers in the United States (In November 2015, Exterran Partners, L.P. spun off their US compression into a new entity named "Archrock Partners").
Dawson Geophysical Co.	Dawson Geophysical Company provides onshore seismic data acquisition and processing services in the United States.
Callon Petroleum	Callon Petroleum is an independent energy company which is focused on growing production and reserves from its oil-weighted, multi-play, multi-pay assets in the Permian Basin.
Vaalco Energy, Inc.	VAALCO Energy, Inc., an independent energy company, together with its subsidiaries, engages in the acquisition, exploration, development, and production of crude oil and natural gas.
Team, Inc.	Team Inc. provides specialty industrial services in the United States, Canada, Europe, and internationally related to the construction, maintenance and monitoring of pressurized piping and associated systems in the refining, petrochemical, power, pipeline and other heavy industrial industries.
Tesco Corp.	Tesco Corporation, together with its subsidiaries, is engaged in the design, manufacture and service delivery of technology-based solutions for the upstream energy industry worldwide.
RigNet, Inc.	RigNet, Inc. provides remote communications services for the oil and gas industry.
Mitcham Industries, Inc.	Mitcham Industries, Inc., through its subsidiaries, engages in the leasing, sale, and service of geophysical and other equipment to the seismic industry worldwide.
USA Compression Partners, LP	USA Compression Partners provides natural gas compression services under term contracts with customers in the oil and gas industry in the U.S.
Warren Resources, Inc.	Warren Resources, Inc., an independent energy company, engages in the exploration, development, and production of onshore oil and natural gas reserves in the United States.
Flotek Industries Inc.	Flotek Industries develops and supplies drilling, completion and production technologies and related services to the energy and mining industries in the U.S. and internationally.

The Compensation Committee, with the assistance of the compensation consultant, reviewed the companies comprising the Custom Peer Group in order to maintain its appropriateness for the competitive pay analysis. These companies were generally selected since they are all companies in the energy and energy services industry and have various rental, leasing or manufacturing components in their business with all having an acceptable range of relatively similar annual revenues and market capitalization. The Compensation Committee believes the Custom Peer Group reflects our current competitors for employee talent and that it provides an appropriate peer set for the purposes of evaluating our pay practices and the Chief Executive Officer’s pay levels.

The published compensation surveys consisted of the following:

- Economic Research Institute -- *Executive Compensation Assessor*
- Tower Watson -- *Top Management Compensation*
- Mercer, Inc. -- *Executive General Benchmark Survey*
- Kenexa -- *CompAnalyst Benchmark Survey*
- WorldatWork -- *Total Salary Increase Budget Survey*

The Compensation Committee used the competitive pay information and surveys as a “market check” to ensure, in its subjective judgment, that the Chief Executive Officer’s base salary, target total cash compensation, long-term incentive awards and total direct compensation remain competitive. The Compensation Committee does not target any individual pay component to fall within a specific range or percentile of the competitive pay information. While the competitive pay information is important to the Compensation Committee’s approval process, it is just one of several factors considered by the Compensation Committee in approving executive compensation and the Compensation Committee has discretion in determining the nature and extent of its use.

Performance Comparison to Peer Group

The table below shows the aggregate one, three and five-year Total Shareholder Return (“TSR”) for the Company as well as the median TSR for the peer group utilized by the Company.

Aggregate Total Shareholder Return

Company/Peer Group	1-year TSR	3-year TSR	5-year TSR
Natural Gas Services Group	(3.2)%	35.8%	17.9%
Median NGS Proxy Peer Group	(43.5)%	(37.9)%	(54.3)%

As the foregoing table indicates, the Company has significantly outperformed its peers in both 2015 and over the past five years. Moreover, as the table below indicates, on an annualized basis, the Company has also outpaced its peer group over the same time period.

Annualized Total Shareholder Return

Company/Peer Group	1-year Ann. TSR	3-year Ann. TSR	5-year Ann. TSR
Natural Gas Services Group	(3.2)%	10.7%	3.4%
Median NGS Proxy Peer Group	(43.5)%	(14.7)%	(14.5)%

Individual and Company Performance - Base Salary and Equity Awards

The Compensation Committee also evaluates compensation, particularly base salary levels and equity awards (restricted stock awards), through an analysis of each executive officer's individual performance and the overall performance of Natural Gas Services Group, our goal being to strengthen the link between what we pay our executives and the performance of Natural Gas Services Group. Factors the Committee considers in our analysis include:

- the individual performance, leadership, business knowledge and level of responsibility of our officers;
- the particular skill-set and longevity of service of the officer;
- the effectiveness of the officer in implementing our overall strategy; and
- the general financial performance and health of the Company.

Our CEO is additionally evaluated on his specific ability and effectiveness with respect to shareholder and customer engagement.

Specific Company Financial Metrics - Cash Bonuses

With respect to compensation we pay in the form of cash bonuses, the Committee sets performance levels for three specific company financial metrics. The Committee relies on whether these levels are achieved and the individual performance of our executive officers to determine whether cash bonuses are awarded and the amounts of such bonuses. The three financial metrics the Committee considers are:

- total revenues;
- adjusted EBITDA; and
- adjusted net income before taxes.

Adjusted EBITDA is calculated from our audited financial statements by adding to net income, or loss, (1) amortization and depreciation expense, (2) interest expense (3) provision for income tax expense and (4) loss on retirement of rental equipment.

We believe that our core executive compensation mix of base salary, cash bonuses and equity awards, while fairly limited, presently provides enough diversity for us to link executive compensation to our short-term and long-term objectives. For instance, base salary and cash bonuses generally relate to short-term achievements and objectives while equity awards are more closely linked to the long-term objectives of earnings per share and increased market value of our common stock or maintenance of market value in periods of depressed industry performance, such as during the past two years.

Base Salary

We provide our executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Each year the Committee receives base salary recommendations from our Chief Executive Officer for all of our executive officers (other than our Chief Executive Officer whose base salary is evaluated by the Committee on an annual basis).

In January 2015, the Compensation Committee reviewed the 2014 performance of our Chief Executive Officer, Stephen C. Taylor, along with the competitive pay information provided in Longnecker's report, in setting Mr. Taylor's base salary for 2015. Before the increase in salary for 2014, Mr. Taylor's base salary fell to slightly less than the 50th percentile bracket in the Company's peer group. In connection with that review, the Committee increased the base salary of Mr. Taylor from \$505,175 in 2014 to \$543,063 in 2015, which moved Mr. Taylor's base salary to approximately the 63rd percentile bracket. The increase was made in recognition of Mr. Taylor's leadership and contributions to the Company's strong 2014 financial and operational results, which included: (i) increasing total gross margin, exclusive of depreciation and amortization, by 11.4% to \$53.8 million for 2014 from \$48.3 million for 2013; (ii) achieving in 2014 record high revenue of \$97 million, a 9.0% increase in revenue from 2013; (iii) a 7% increase in EBITDA; generating \$34.6 million from operations, while investing \$53.1 million in capital for equipment; (iv) controlling SG&A expense to 10.6% of revenues; increasing rental revenue by 14.4%; internally funding over \$175 million in growth capital since 2010 while maintaining a very low debt level when compared to competitors; (v) maintaining high margins and maintaining high ratios of operating income, net income and EBITDA when compared to gross revenues relative to competitors; (vi) aggressive expansion into new geographic areas; (vii) positioning our business to emphasize servicing oil and gas production

rather than drilling projects in order to offset drilling slowdowns as witnessed in the latter half of 2014; and (viii) maintaining safety performance.

While the Compensation Committee reviewed the competitive pay information in connection with setting Mr. Taylor's base salary adjustments, together with his contributions toward our goals, the Compensation Committee did not target his base salary to fall within a specific range or percentile of the competitive pay information.

With respect to our other two named executive officers other than our CEO, James Hazlett, our Vice President of Technical Services, base salary for 2015 was \$200,000 compared to \$190,000 for 2014. The base salary of G. Larry Lawrence, our Vice President and Chief Financial Officer, for 2015, was \$187,000 compared to \$170,000 for most of 2014. We continue, as we have in the past, to rely on the following factors in evaluating and determining the amount of compensation we pay these executives:

- our general knowledge of executive compensation levels in the natural gas compression industry and similarly sized energy service companies;
- each executive's individual performance and the overall performance of Natural Gas Services Group; and
- specific company financial metrics and the application of specific weights to such metrics.

The applicability of these factors varies depending on the type of compensation being evaluated and determined. For instance, we do not rely on weighted company financial metrics to evaluate and determine base salary levels (which are competitively set to the market), but the achievement of pre-set financial metrics are the primary means through which we evaluate and determine the amount of the cash bonuses we award to our executives. Below is a more detailed discussion of how these factors apply to the different types of compensation we utilize.

Short-Term Incentives - Annual Incentive Bonus Plan

In 2006, the Committee adopted an Annual Incentive Bonus Plan or, the "IBP," that provides guidelines for the calculation of annual non-equity incentive based compensation in the form of cash bonuses to our executives, subject to Committee oversight and modification. The bonuses awarded under the IBP are short-term awards in recognition of the overall performance and efforts made by our executives during a particular year. Each year, the Committee approves the group of executives eligible to participate in the IBP and establishes target award opportunities for such executives. For 2015, the Committee maintained Mr. Taylor's target award opportunity to up to 100% of his base salary. Target award opportunity was 50% of average base salary for Messrs. Lawrence and Hazlett.

In 2015, 90% of an executive officer's IBP award was based on achievement of company financial objectives relating to:

- total revenues;
- adjusted EBITDA; and
- adjusted net income before taxes.

Each of these three components accounts for 30% of the total company financial objective portion of the IBP. The remaining 10% of an executive officer's IBP award is based upon individual performance as evaluated by our CEO (except with respect to our CEO whose individual performance is evaluated by the Committee).

Each year, the Committee sets a performance level for each component of the company financial objective portion of the IBP. The payment of awards under the IBP is based upon whether these performance levels are achieved for the year. Payout on each of the three financial objectives is as follows:

- 75% of the bonus amount attributable to a financial component will be paid if we achieve at the "threshold" amount;
- 100% of the bonus amount attributable to a financial component will be paid if we achieve the "target" amount; and
- 125% of the bonus amount attributable to a financial component will be paid if we achieve the "stretch" amount.

For performance achievement between the set financial objectives, the board has discretion to prorate the amount of the award.

The following table sets forth the bonus financial criteria and performance levels set by the Committee and compares such performance levels to actual performance achieved and the resulting bonus payout percentages earned in 2015:

2015 Annual Incentive Bonus Plan

Performance Level ⁽¹⁾	Payout %	Revenue	Adjusted Net Inc. before Taxes ⁽¹⁾	Adjusted EBITDA ⁽¹⁾
Threshold	75%	\$ 83,232,489	\$ 11,547,015	\$33,912,884
Target	100%	\$ 88,073,937	\$ 15,876,422	\$38,242,292
Stretch	125%	\$ 94,628,733	\$ 17,060,040	\$39,425,910

(1) The three financial performance levels were based on operating performance without giving effect to a loss on a non-recurring retirement of rental equipment and allowances taken in second quarter of 2015.

The following table sets forth the actual results achieved and the resulting bonus payout percentages earned in 2015:

Criteria	2015 Performance	Stretch Metric ⁽¹⁾	Eligible Bonus Percentage	Bonus Component	Payable Bonus
Revenue	\$ 95,918,835	\$ 94,628,733	125%	30%	37.5%
Adjusted Net Income before Taxes*	\$ 19,789,785	\$ 17,060,040	125%	30%	37.5%
Adjusted EBITDA**	\$ 42,406,476	\$ 39,425,910	125%	30%	37.5%
Personal Performance			100%	10%	10.0%
Total					122.5%

(1) The three financial levels and 2015 performance were based on operating performance without giving effect to a special loss on retirement of rental equipment write-down taken in 2015.

* Adjusted Net Income before Taxes is adjusted for loss on retirement of rental equipment and second quarter 2015 increase in allowances. See fourth quarter 2015 8-K.

** Adjusted EBITDA is defined as the Company's earnings before interest, income taxes, depreciation, amortization, and loss on a non-recurring retirement of rental equipment, and is an indicator of operating performance.

The following table sets forth the bonus eligibility set by the Committee for 2015 for each of our named executive officers, and based upon the payout percentages noted in the table above, the bonus payout amount earned by each named executive for 2015 under our Annual Incentive Bonus Plan:

Name	Title	Base Salary	Max Bonus Eligibility	Bonus Base	Bonus Payout %	Bonus Payouts
Stephen C. Taylor	President & CEO	\$ 543,063	100%	\$ 543,063	122.5%	\$ 665,252
G. Larry Lawrence	Chief Financial Officer	\$ 187,000	50%	\$ 93,500	122.5%	\$ 114,538
James R. Hazlett	VP- Technical Services	\$ 200,000	50%	\$ 100,000	122.5%	\$ 122,500

As noted in the tables above, actual financial performance for 2015 exceeded the "stretch" level in each of the three financial metrics set for 2015, thereby entitling each of the named executive officers to 125% of the maximum bonus payout for each of the three financial metrics.

With respect to the personal performance criteria, the Committee awarded Messrs. Taylor, Lawrence and Hazlett the maximum amount payable under this component, or 10% of the maximum bonus amount that could have been earned in 2015. In addition to the Committee's non-quantitative evaluation of each executive's performance, with respect to all of the named executives, the Committee made this award in recognition of the Company's 2015 financial and operational performance.

With respect to Mr. Taylor's personal performance criteria, the Committee based its full award on (i) quickly reacting to the deteriorating market by cutting capital expenditures by 77% in 2015 versus 2014; (ii) utilizing a combination of aggressive (new product introductions and expanded sales coverage) and defensive (cost cutting and strategic pricing) measures to guide the Company through the worst downturn in decades; and (iii) his continued ability to maintain superior cost control, industry leading margins in operating income, adjusted EBITDA and cash flow.

With respect to Mr. Lawrence's personal performance criteria, the Committee also based its full award on his success in (i) initiating and managing the R&D tax credit process that resulted in appreciable tax credits; (ii) leading implementation of our SEC-mandated conflict mineral reporting and tracking process; and (iii) initiating EDI with our major customers for more efficient and timely processing of invoices.

With respect to Mr. Hazlett's personal performance criteria, the Committee also based its full award on his (i) efficiently managed the severe contraction in our compressor fabrication throughput; (ii) leading the final engineering design and development of our new 500 horsepower compressor frame and VRU (Vapor Recovery Unit) product offerings; and (iii) maintaining an efficient level of engineering staffing that enabled the Company to consistently respond to customer bid requests and 'win' the work.

With respect to the rigor of the IBP financial targets, in 2014 the company's officers were awarded only 77.5% of their target bonus in spite of 2014 being a record year for the company.

Long-Term Incentives - Restricted Stock Awards

We consider restricted stock to be a type of long-term incentive compensation that motivates our executive officers to work toward our long-term growth and allows them to participate in the growth and profitability of Natural Gas Services Group. We believe that restricted stock aligns the interests of our executive officers with our shareholders in that our executive officers will benefit from the restricted stock only to the extent that the value of our common stock increases. With the exception of Mr. Taylor, our Chief Executive Officer, the number of shares of restricted stock granted to an executive officer is based on a subjective determination of an officer's individual performance and his current contributions and potential for future contributions to the overall performance of Natural Gas Services Group. In Mr. Taylor's employment agreement we have agreed to award Mr. Taylor a restricted stock award or equivalent equity awards in January of each year with an aggregate minimum value equal to at least 175% of his Base Salary, subject to current vesting terms and other standard terms which shall be established by the Compensation Committee taking into account the performance of the Company, Mr. Taylor and industry norms. Our compensation consultant concurred with our approach relating to long-term incentives and recommended that we continue the practice.

In 2009, we adopted the 2009 Restricted Stock/Unit Plan (the "Plan") and it went into effect upon its approval by our shareholders at our 2009 annual meeting. We typically grant awards under the Plan to our executive officers and Directors during the first quarter of each year after reviewing the Company's operational and financial results from the previous year.

During the first and second quarters of 2016, the Company granted the following restricted stock awards in connection with our 2015 financial and operational results and personal accomplishments of our named executive officers:

Name	Dollar Value of the Award	Number of Restricted Shares Awarded
Stephen C. Taylor, CEO and President	\$ 1,679,999	75,915
James R. Hazlett, Vice President - Technical Services	\$ 407,800	20,000
G. Larry Lawrence, Chief Financial Officer	\$ 407,800	20,000

Pursuant to Mr. Taylor's employment agreement, we are required to grant a restricted stock award or equivalent equity awards in January of each year with an aggregate minimum value equal to at least 175% of his Base Salary. See "*Compensation Agreements with Management*" beginning on page 41 of this Proxy Statement for information concerning Mr. Taylor's employment agreement.

The Committee also reviewed Mr. Taylor's total compensation level along with Company's performance and Mr. Taylor's personal performance in connection with determining the value of the 2015 restricted stock award. As a result of the Committee's review, the Committee awarded Mr. Taylor (i) 44,284 shares of restricted common stock pursuant to the terms of his employment agreement and (ii) an additional 31,631 shares of restricted common stock in recognition of our 2015 financial and operational results and performance, for a total award of 75,915 shares of restricted common stock. The restricted shares are subject to a two year vesting period (half of the shares vest on the first anniversary date and the remaining half on the second anniversary date), although such vesting is subject to acceleration and will immediately vest in the case of (i) death, disability or retirement of the recipient employee, or (ii) a change of control in the Company, as set forth in the Plan.

On April 6, 2016, the Compensation Committee awarded 20,000 shares of restricted common stock to each of G. Larry Lawrence, our Chief Financial Officer and James R. Hazlett, our Vice President-Technical Services. The restricted shares are subject to a two year vesting period (half of the shares vest on the first anniversary date and the remaining half on the second anniversary date). All of the restricted shares are subject to acceleration and will immediately vest in the case of (i) death, disability or retirement of the recipient employee, or (ii) a change of control in the Company, as set forth in the Plan.

The additional restricted shares which were issued to Mr. Taylor in excess of the 175% of his Base Salary obligation under the terms of his employment agreement, and the restricted stock awards to our other two named executive officers were made in recognition of their personal performance and of the Company's 2015 financial and operational performance as set forth under "Fiscal Year 2015 Performance" on page 20 of this Proxy Statement.

Further information concerning these awards is set forth in column (i) of the "Summary Compensation Table" on page 32 and column (i) of the "Grants of Plan-Based Awards for Fiscal 2015" on page 34.

Other Compensation

We maintain a 401(k) retirement plan in which all of our executives and employees are eligible to participate. We match executive and employee contributions to our 401(k) plan, on an equal percentage basis, with cash contributions. The Company matching portion is equal to one-half of the employee's annual contribution up to a maximum of 3% of the employee's salary. Our matching amounts for our executive officers are included in column (i) of the "Summary Compensation Table" on page 32.

Total Direct Compensation

In determining the extent to which our chief executive officer compensation program meets the Committee's compensation philosophy and objectives, the Committee considers the competitiveness of total compensation (the aggregate of base salary, annual cash bonus incentive payment, and the grant value of long-term incentive plan award). Using the Custom Peer Group data from Longnecker's study and discussing with Longnecker the pay practices of our peers, the total compensation for Mr. Taylor, our Chief Executive Officer, was at approximately the 75th percentile bracket which the Committee believed to be warranted considering our relatively strong (i) 2015 financial and operational results during a difficult time for companies in the oil and gas industry and (ii) total shareholder return when compared to our peer group.

Employment Agreements

We employed Stephen C. Taylor, our President and Chief Executive Officer, in January 2005. On October 23, 2013, we entered into a new written employment agreement with Mr. Taylor. We do not have written employment agreements with any of our other executive officers. On April 24, 2015, we entered into an amendment with Mr. Taylor to his Employment Agreement pursuant to which the "modified single trigger" change of control provision was changed to a "double trigger" change of control. Under the "modified single trigger provision", Mr. Taylor could voluntarily terminate the Employment Agreement for any reason immediately upon a change in control and collect severance benefits. Under the new "double trigger" change of control provision, a change of control must occur followed by the Company or its successor terminating Mr. Taylor's employment other than for cause, death, or disability, or by Mr. Taylor terminating his employment for Good Reason. See "*Compensation Agreements with*

Management” beginning on page 41 of this Proxy Statement for detailed information concerning Mr. Taylor’s employment agreement, as amended.

Allocation of Amounts and Types of Compensation

Other than the restricted stock awards we grant to our executives from time to time and the determinations made by the Committee as to specific target award opportunities under our IBP, the allocation of different amounts and types of compensation has not been a consideration for us, except with respect to our Chief Executive Officer whose employment agreement currently requires an annual restricted stock award or similar equity award with a value of at least 175% of his base salary. However, the Committee is in the process of revising its long-term equity compensation program to a hybrid performance and discretionary methodology. See "Chief Executive Officer Equity Compensation" on page 39. The Committee has not adopted a specific policy or target for the allocation between amounts or types of compensation. We believe that the use of stock awards in our compensation package will align the interests of our management and employees with our stockholders. Notwithstanding moderately increasing the use of stock-based compensation, we intend to maintain and continue our practice of having a simplified, but effective and competitive, compensation package.

Change of Control and Severance Arrangements

Our 1998 Stock Option Plan, as amended, and our 2009 Restricted Stock/Unit Plan contains change of control provisions. In addition, Mr. Taylor’s employment agreement contains change of control and severance provisions. Information regarding these provisions is provided under the caption “Potential Payments Upon Termination or Change of Control” on page 38.

Perquisites

We provide limited perquisites to our executives. The primary perquisites include allowing our executives a choice of receiving an automobile allowance or personal use of a company-provided automobile and matching contributions made by Natural Gas Services Group under our 401(k) plan. Although we provide Mr. Taylor with one club membership, since his use of the club is limited solely for business entertainment, we have not considered it to be a perquisite and have not valued it as such for inclusion in column (i) of the "Summary Compensation Table" on page 32.

Our executives also participate in the same medical, dental and life insurance plans as other employees. However, we pay a greater percentage of the premiums for health insurance for our executives than we do for our other employees.

Limit on Deductibility of Certain Compensation

Provisions of the Internal Revenue Code that restrict the deductibility of certain compensation over \$1 million dollars per year have not been a factor in our considerations or recommendations. Section 162(m) of the Code currently imposes a \$1 million limitation on the deductibility of certain compensation paid to specified executives. Excluded from the limitation is compensation that is “performance based.” For compensation to be performance based, it must meet certain criteria, including being based on predetermined objective standards approved by shareholders. The Committee has not taken the requirements of Section 162(m) into account in designing executive compensation.

Say-on-Pay

At our 2015 Annual Meeting of shareholders held in June 2015, we submitted a proposal to our stockholders regarding our executive compensation practices. The proposal was an advisory vote on the 2014 compensation awarded to our named executive officers (commonly known as a “Say-on-Pay” vote). Excluding broker non-votes, our shareholders disapproved our 2014 compensation with less than half (48.6%) of the shares that voted on the proposal voting in favor of our 2014 executive compensation practices.

As noted at the beginning of this section, the results were disappointing since we believe the vote was the result of the influence from recommendations from proxy advisory firms, of which advise institutional investors on voting on annual proxy matters. We believe that their reports contained factual errors and assumptions that resulted in questionable conclusions and recommendations, and in June 2015 we sent a letter to the proxy advisory firms which detailed our issues with their reports. We

also sent our shareholders a copy of these letters and filed our correspondence with the Securities and Exchange Commission on June 15, 2015. You can access this filing free of charge on the Investor Relations section of our website (www.ngsgi.com). A paper copy is also available, without charge upon written request, at Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701.

Notwithstanding, we took numerous remedial measures, including:

- adopting a clawback policy that covers all executive officers;
- adopting executive and director stock ownership guidelines;
- extending the vesting terms on restricted stock awards made to our executive officers;
- amending our Corporate Governance Guidelines to include a lead independent director. Charles Curtis, our longest tenured independent director, has been appointed as our lead director; and
- amending our Bylaws to require a majority vote standard in connection with the uncontested election of Directors subject to shareholder approval.

Corporate Governance Policies

To ensure our compensation programs are aligned with the long-term interest of our shareholders, we have adopted several governance policies that we expect our executive officers to comply with, including meaningful stock ownership guidelines, a pledging and hedging policy and a recapture or “clawback” policy that provides for the recoupment of any performance-based payouts made based on financial results that are not in compliance with any financial reporting requirement that requires restatement of the Company’s financial statements. In addition, to provide our shareholders with a meaningful role in the election of Directors and to enhance our corporate governance standards, we have adopted a “majority vote” requirement in the election of Directors, subject to the approval of our Shareholders at the annual meeting (see Proposal 5). Below are summaries of these new policies.

Compensation Clawback Policy

The Company has adopted a compensation recoupment, or “clawback” policy intended to be consistent with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). This policy provides that, in the event we are required to restate our financial statements as a result of “material noncompliance” with financial reporting requirements under the securities laws, we will recover from our current and former executive officers any incentive-based compensation (including equity awards) that is (i) based on material erroneous data, (ii) received during the three-year period preceding the date on which the Company becomes required to prepare an accounting restatement, and (iii) in excess of what would have been paid if calculated under the restatement. In addition, the Dodd-Frank Act requires the SEC to issue regulations requiring issuers to seek recovery from executive officers in certain circumstances involving financial restatements. The SEC has issued proposed regulations implementing this portion of the Dodd-Frank Act. Once the SEC finalizes its regulations regarding the required form of a clawback policy under the Dodd-Frank Act, we expect to amend our clawback policy accordingly.

Pledging and Hedging Policy

The Company considers it improper and inappropriate for any director, executive officer or associate to engage in short-term or speculative transactions involving our Common Stock. We therefore prohibit directors, executive officers and other associates from engaging in pledging, short sales or other short position transactions in our Common Stock. We also strongly discourage directors, executive officers and other associates from engaging in certain forms of hedging or monetization transactions.

Director and Executive Officer Stock Ownership Guidelines

The Company has stock ownership requirements for its directors and executive officers. The purpose of the ownership requirements is to further our goal of increasing shareholder value and to further align the interests of our directors and key executives with the interests of our shareholders. Satisfaction of the policy requires that individuals attain and retain holdings of our common stock with a market value equal to the following multiple of the individual's compensation, defined as either a director's cash retainer fee or an officer's base salary. The table below indicates the stock ownership guidelines for our executive officers and Board members:

Stock Ownership Guidelines

Executive Officer/Director	(as a multiple of base salary/annual cash retainer)
CEO	3 times Base Salary
All other executive officers	2 times Base Salary
Non-employee Directors	1 times Base Annual Cash Retainer

Each person's stock ownership requirement will be adjusted annually each January 1 to reflect any changes in his or her retainer or base salary. Generally, individuals have a five-year period to attain their stock ownership requirements. At any time at which the individual's stock ownership requirement has not been met, including during the initial five-year period to attain compliance, the individual will be required to retain at least 50% of "Net Shares" received upon vesting of restricted stock, restricted stock units and performance units. "Net Shares" are defined to include shares of common stock that are owned by the individual after shares are sold, swapped or traded to pay applicable withholding taxes. Subsequent to achieving the initial stock ownership requirement, all directors and executives are required to continuously maintain stock ownership at their specified levels.

If an individual does not meet the applicable ownership requirements, then he or she is subject to certain restrictions upon the vesting of equity awards, and may only dispose of shares for particular reasons set forth in the policy. The policy provides a hardship exemption, for which an individual must submit a request to the corporate governance committee. Presently, all of our directors and our executive officers have attained or exceeded their ownership requirements.

Majority Vote Standard in Uncontested Director Elections

In April 2016, the Board amended our Bylaws to implement a majority vote standard in uncontested elections of Directors. Prior to this amendment, Directors were elected by plurality vote, meaning that nominees for the election of Directors who received the greatest number of votes cast in favor of his or her election would be elected to the Board even if such number of favorable votes was less than a majority of votes cast in the election. Under our revised Bylaws, in uncontested elections each Director must be elected by an affirmative majority of the votes cast. Under our new Bylaw provisions in connection with uncontested elections, abstentions and broker non-votes will not be counted and will have no effect in determining whether the required majority vote has been obtained. With respect to contested elections (those where the number of nominees exceeds the number of directors to be elected), a plurality vote standard will continue to apply. This amendment to our Bylaws requires Shareholder approval at the annual meeting (see Proposal 5).

The Compensation Committee will continue to consider the outcome of Say-on-Pay votes when making future compensation decisions for our named executive officers.

Compensation Committee Report

The Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on its review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our proxy statement for the 2016 Annual Meeting of Shareholders.

Members of the Compensation Committee

William F. Hughes, Jr. (Chairman)
John W. Chisholm
David L. Bradshaw

Executive Compensation

The table below sets forth the compensation earned by, and paid to our CEO, Stephen C. Taylor, and our other named executive officers for services rendered to us for the fiscal years ended December 31, 2015, 2014 and 2013.

Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary (c)	Bonus ⁽¹⁾ (d)	Stock Awards ⁽²⁾ (e)	Option Awards ⁽³⁾ (f)	Non-Equity Incentive Plan Compensation ⁽⁴⁾ (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (h)	All Other Compensation ⁽⁵⁾ (i)	Total (j)
Stephen C. Taylor, Chairman, President & CEO	2015	\$ 561,036	\$ 6,646	1,679,999	\$ —	\$ 665,252	\$ —	\$ 14,264	\$ 2,927,197
	2014	540,949	7,267	1,629,169	\$ —	391,511	—	14,444	2,583,340
	2013	444,798	8,405	1,389,196	86,860 ⁽⁶⁾	444,324	—	15,752	2,389,335
G. Larry Lawrence, Chief Financial Officer	2015	193,754	2,289	407,800	—	114,538	—	16,722	735,103
	2014	180,708	2,445	375,000	16,910 ⁽⁷⁾	59,288	—	12,645	646,996
	2013	152,308	3,020	456,150	16,899 ⁽⁸⁾	66,854	—	13,573	708,804
James R. Hazlett, Vice President, Technical Services	2015	207,539	2,448	407,800	—	122,500	—	31,619	771,906
	2014	200,228	3,574	375,000	33,809 ⁽⁹⁾	66,263	—	29,259	708,133
	2013	180,989	3,574	456,150	33,819 ⁽¹⁰⁾	76,325	—	30,119	780,976

- (1) The amounts reflected in column (d) reflect payments under the company's profit sharing program administered to all employees.
- (2) The amounts in column (e) reflect the grant date fair value of stock granted under our 2009 Restricted Stock/Unit Plan.
- (3) The amounts in column (f) reflect the dollar amounts recognized for financial statement reporting purposes for the fiscal years ended December 31, 2015, 2014 and 2013, in accordance with FASB ASC Topic 718, associated with stock option grants under our 1998 Stock Option Plan. Assumptions used to calculate these amounts are included in footnote 9 for our audited financial statements for the fiscal year ended December 31, 2015; footnote 8 for our audited financial statement for fiscal year ended December 31, 2014; and footnote 8 for our audited financial statement for fiscal year ended December 31, 2013.
- (4) The amounts in column (g) reflect the cash bonus awards to the named executive officers under our Annual Incentive Bonus Plan, which is discussed in further detail on page 25 under the caption "Short-Term Incentives - Annual Incentive Bonus Plan."
- (5) The amounts shown in column (i) include matching contributions made by Natural Gas Services Group to each named executive officer under our 401(k) plan and the aggregate incremental cost to Natural Gas Services Group of perquisites provided to our named executive officers as follows:

Name	Year	Automobile Allowance	Personal Use of Company Provided Automobiles	Additional Incremental Portion of Health Insurance Premiums Paid for Officers Only	401(k) Plan	Total ^(a)
Stephen C. Taylor	2015	\$ —	\$ 1,800	\$ 6,912	\$ 5,552	\$ 14,264
	2014	—	1,800	7,285	5,359	14,444
	2013	—	1,800	6,715	7,237	15,752
G. Larry Lawrence	2015	10,592	—	—	6,130	16,722
	2014	10,200	—	—	2,445	12,645
	2013	10,200	—	—	3,373	13,573
James R. Hazlett	2015	10,592	—	17,400	3,627	31,619
	2014	10,200	—	16,463	2,596	29,259
	2013	10,200	—	15,828	4,091	30,119
Total	2015	21,184	1,800	24,312	15,309	62,605
	2014	20,400	1,800	23,748	10,400	56,348
	2013	20,400	1,800	22,543	14,701	59,444

- (6) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2013, in accordance with FASB ASC Topic 718, for 10,000 shares of common stock that vested on January 18, 2013 under the stock option granted to Mr. Taylor on January 18, 2010.
- (7) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2014, in accordance with FASB ASC Topic 718, for 1,667 shares of common stock that vested on January 24, 2014 under the stock option granted to Mr. Lawrence on January 24, 2011.
- (8) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2013, in accordance with FASB ASC Topic 718, for 1,666 shares of common stock that vested on January 24, 2013 under the stock option granted to Mr. Lawrence on January 24, 2011.
- (9) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2014, in accordance with FASB ASC Topic 718, for 3,333 shares of common stock that vested on January 24, 2014 under the stock option granted to Mr. Hazlett on January 24, 2011.
- (10) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2013, in accordance with FASB ASC Topic 718, for 3,334 shares of common stock that vested on January 24, 2013 under the stock option granted to Mr. Hazlett on January 24, 2011.

Grants of Plan Based Awards

The table below sets forth the estimated future payouts under non-equity incentive plan awards and restricted stock awards granted and the grant date fair value of such awards.

Grants of Plan-Based Awards for Fiscal 2015

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#) ⁽²⁾	All Other Option Awards: Number of Securities Underlying Option (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target	Maximum (\$)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Stephen C. Taylor	1/6/2016	—	—	—	—	—	—	75,915	—	\$ 22.13	\$ 1,679,999
G. Larry Lawrence	4/6/2016	—	—	—	—	—	—	20,000	—	20.39	407,800
James R. Hazlett	4/6/2016	—	—	—	—	—	—	20,000	—	20.39	407,800

- (1) No awards were made under the non-equity Incentive Plan for 2015 except as described of the performance goals under our Annual Incentive Bonus Plan, or the "IBP." More information regarding the IBP and the calculation of awards is provided below and under the caption "Short-Term Incentives - Annual Incentive Bonus Plan" on page 25.
- (2) The information shown in this column reflects awards of restricted stock earned in 2015 (but issued in early 2016) our named executive officers pursuant to our 2009 Restricted Stock/Unit Plan.

Annual Incentive Bonus Plan

Our Annual Incentive Bonus Plan or, the "IBP," provides for annual non-equity incentive based compensation in the form of cash bonuses to our executive officers. Our Compensation Committee administers and determines from year to year the executives that are eligible to participate in the IBP. The Committee establishes target award opportunities for the executives eligible to participate in the plan. These target award opportunities are expressed as a percentage of an executive's base salary. An executive's target award opportunity is the maximum cash bonus an executive is eligible to receive in any one year under the IBP.

The Committee establishes annual performance levels for Natural Gas Services Group's total revenues, adjusted EBITDA and adjusted net income before taxes and assigns a weight of 30% to each of these components. The executive's individual performance is assigned a weight of 10%. Detailed information regarding the IBP and the calculation of awards is provided under the caption "Short-Term Incentives – Annual Incentive Bonus Plan" on page 25.

1998 Stock Option Plan

Our 1998 Stock Option Plan provides for the issuance of stock options to purchase up to 750,000 shares of our common stock. The purpose of this plan is to attract and retain the best available personnel for positions of substantial responsibility and to provide long-term incentives to employees and consultants and to promote the long-term growth and success of our business. The plan is administered by the Compensation Committee of the Board of Directors. At its discretion, the Compensation Committee determines the persons to whom stock options may be granted and the terms upon which options will be granted. In addition, the Compensation Committee may interpret the plan and may adopt, amend and rescind rules and regulations for its administration. Option awards are generally granted with an exercise price equal to the closing price of our common stock at the date of grant and generally vest based on three years of continuous service and have ten-year contractual terms. On April 5, 2016, subject to shareholder approval, the Board of Directors voted to amend and restate the 1998 Plan to extend the 1998 Plan until February 28, 2026 and increase the number of shares of common stock issuable under the Plan from 750,000 to 1,000,000. See "Proposal 3" on page 50.

As of December 31, 2015, stock options to purchase a total of 414,769 shares of our common stock were outstanding under the 1998 Stock Option Plan. There were no shares included that relate to our non-employee directors under the compensation arrangements described under the caption “Compensation of Directors” on page 40.

A total of 93,419 shares of common stock were available at December 31, 2015 for future grants of stock options under the 1998 Stock Option Plan.

2009 Restricted Stock/Unit Plan

The purpose of our 2009 Restricted Stock/Unit Plan (the “2009 Plan”) is to retain our employees and directors having experience and ability, to attract new employees and directors whose services are considered valuable, to encourage the sense of proprietorship, and to stimulate the active interest of such persons in our development and financial success. We believe that grants of restricted stock and restricted stock units are an increasingly important means to retain and compensate employees and directors.

General Description

Shares Reserved for Issuance under the 2009 Plan. A total of 800,000 shares of our common stock are reserved for issuance under the 2009 Plan. The number of shares of our common stock available under the 2009 Plan will be subject to adjustment in the event of a stock split, stock or other extraordinary dividend, or other similar change in our common stock or capital structure.

Administration. The Plan is administered by the plan administrator, defined as one or more committees the Company designates consisting of independent directors. The draft of the Plan appoints our Compensation Committee as the administrator (the “Committee”).

Generally, the Committee has the authority, in its discretion, (a) to select officers, directors and employees to whom awards may be granted from time to time, (b) to determine whether and to what extent, awards are granted, (c) to determine the number of shares of our common stock, or the amount of other consideration to be covered by each award, (d) to approve award agreements for use under the Plan, (e) to determine the terms and conditions of any award (including the vesting schedule applicable to the award), (f) to amend the terms of any outstanding award granted under the Plan, (g) to construe and interpret the terms of the Plan and awards granted, and (h) to take such other action not inconsistent with the terms of the Plan, as the Committee deems appropriate.

Types of Awards; Eligibility. Awards of restricted stock and restricted stock units (RSUs) may be granted under the Plan. Awards of restricted stock are shares of our common stock that are awarded subject to such restrictions on transfer as the Committee may establish. Awards of RSUs are units valued by reference to shares of common stock that entitle a participant to receive, upon the settlement of the unit, one share of our common stock for each unit. Awards may be granted to our officers, directors and employees and our related entities, if any. Each award granted under the Plan shall be designated in an award agreement.

Terms and Vesting of Awards. As noted above, the Committee determines the terms and conditions of each award granted to a participant, including the restrictions applicable to shares underlying awards of restricted stock and the dates these restrictions lapse and the award vests, as well as the vesting and settlement terms applicable to RSUs. When an award vests, we deliver to the participant a certificate for the number of shares without any legend or restrictions (except as necessary to comply with applicable state and federal securities laws).

In addition to time-based vesting requirements, the Committee is also authorized to establish quantitative and qualitative performance goals in order for awards to vest. For instance, quantitative performance standards, including, but not limited to, financial measurements such as (a) increase in share price, (b) earnings per share, (c) total shareholder return, (d) operating margin, (e) gross margin, (f) return on equity, (g) return on assets, (h) net operating income, (i) pre-tax profit, (j) cash flow, (k) revenue, (l) expenses, and (m) EBITDA, or other performance goal requirements may be adopted by the Committee and set forth in the particular restricted stock or RSU agreement which must be met in order for shares to vest.

Termination of Service. Unless otherwise set forth in an individual award agreement, the Plan and forms of award agreements provide that in the event a participant’s continuous service with us terminates as a result of death, disability or retirement (an “Acceleration Event”), unvested shares or RSUs at the time of termination due to an Acceleration Event will immediately become vested, but only to the extent that such unvested shares or RSUs would have vested within the 12 months following the Acceleration Event. However, the Committee may revise this default provision on an individual basis, as it deems advisable. For example, the Committee could elect to accelerate vesting for all unvested shares and/or RSUs upon the occurrence of an Acceleration

Event, or conversely provide that all unvested shares and/or RSUs are forfeited upon the occurrence of an Acceleration Event. In the case of a termination of service other than by an Acceleration Event, any unvested shares of RSUs will immediately become null and void, except that with respect to Restricted Stock awards, the Board of Directors may vest any or all unvested shares in its discretion in the case of any termination of service.

In addition, subject to revision by the Committee, the default provisions of the Plan and form of award agreements provide that a Change of Control triggers accelerated vesting of all shares or units. Under the 2009 Plan, a Change in Control Event is generally defined as:

- a complete liquidation or dissolution;
- acquisition of 50% or more of our stock by any individual or entity including by tender offer or a reverse merger;
- a merger or consolidation in which we are not the surviving entity; or
- during any period not longer than 12 consecutive months, members of the Board who at the beginning of such period cease to constitute at least a majority of the Board, unless the election, or the nomination for election of each new Board member, was approved by a vote of at least 3/4 of the Board members then still in office who were Board members at the beginning of such period.

Restricted Stock. Under an award of restricted stock, we issue shares of our common stock in the participant's name; however, the participant's rights in the stock are restricted until the shares vest. If the vesting requirements are not met prior to the end of the vesting period, the shares are forfeited. In connection with an award of restricted stock, since actual shares are issued and outstanding, the participant is legally entitled to vote the shares and receive any dividends declared and paid on our common stock prior to the satisfaction of the vesting requirements. However, as discussed above, participants who hold unvested restricted stock may not sell, assign or transfer such shares until they have vested.

Restricted Stock Units. Like a restricted stock award, a restricted stock unit is a grant valued in terms of our common stock. Unlike a restricted stock award, none of our common stock is issued at the time the RSU award is granted. Instead, the award is a mere promise to deliver shares of our common stock upon satisfaction of the vesting requirements. Upon satisfaction of the vesting requirements of the award, we then issue and deliver the number of shares subject to the award. If the vesting requirements are not satisfied prior to the end of the vesting period, the units expire and no shares are issued. Since shares of our common stock are not issued in connection with RSUs until such time as the vesting conditions have been satisfied, participants in the Plan who receive awards of RSUs will not have any voting rights and will not be entitled to dividends until such time as the units vest and shares of our common stock are issued.

Amendment, Suspension or Termination of the Plan. We may at any time amend, suspend or terminate the Plan. The Plan will be for a term of ten (10) years unless sooner terminated. Awards may be granted under the Plan upon it becoming effective, but awards granted prior to obtaining shareholder approval will be rescinded if the shareholders do not approve the Plan. We may amend the Plan subject to compliance with applicable provisions of federal securities laws, state corporate and securities laws, the Internal Revenue Code, and the rules of the NYSE (or such other stock exchange as our common stock may be traded upon at the time).

Change in Capitalization. Subject to any required action by our shareholders, the number of shares of common stock covered by outstanding awards, the number of shares of common stock that have been authorized for issuance under the 2009 Plan, the exercise or purchase price of each outstanding award, the maximum number of shares of common stock that may be granted subject to awards to any participant in a calendar year, and the like, shall be proportionally adjusted by the Committee in the event of: (i) any increase or decrease in the number of issued shares of common stock resulting from a stock split, stock dividend, combination or reclassification or similar event affecting our common stock; (ii) any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration by us; or (iii) any other transaction with respect to common stock including a corporate merger, consolidation, acquisition of property or stock, separation (including a spin-off or other distribution of stock or property), reorganization, liquidation (whether partial or complete), distribution of cash or other assets to shareholders other than a normal cash dividend, or any similar transaction; provided, however, that conversion of any of our convertible securities shall not be deemed to have been "effected without receipt of consideration." Except as the Committee determines, no issuance by us of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number of shares of common stock subject to an award.

As of April 12, 2016, we had issued 611,292 shares of restricted stock under the 2009 Plan, of which 454,634 have vested and become unrestricted.

Outstanding Equity Awards at Fiscal Year-End

The following table shows certain information about stock options outstanding as of December 31, 2015 and held by our Chief Executive Officer, Stephen C. Taylor, and each other named executive officer.

Outstanding Equity Awards at 2015 Fiscal Year-End

Name	Option Awards					Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)	Market Value of Shares of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Other Rights that Have Not Vested (\$)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	
Stephen C. Taylor	15,000	—	—	\$ 14.22	11/21/2016	—	—	—	—	
	40,000	—	—	\$ 20.06	1/15/2018	—	—	—	—	
	25,000	—	—	\$ 17.51	9/10/2018	—	—	—	—	
	30,000	—	—	\$ 9.95	1/28/2019	—	—	—	—	
	23,852	—	—	\$ 7.84	3/17/2019	—	—	—	—	
	30,000	—	—	\$ 19.90	1/18/2020	—	—	—	—	
	—	—	—	—	—	83,590	\$ 1,629,169	—	—	
G. Larry Lawrence	5,000	—	—	\$ 17.81	1/24/2021	—	—	—	—	
	—	—	—	—	—	20,000	\$ 375,000	—	—	
James R. Hazlett	5,000	—	—	\$ 17.51	9/10/2018	—	—	—	—	
	10,000	—	—	\$ 17.74	12/9/2019	—	—	—	—	
	10,000	—	—	\$ 17.81	1/24/2021	—	—	—	—	
	—	—	—	—	—	20,000	\$ 375,000	—	—	

Option Exercises and Stock Vested in 2015

In the table below, we show certain information about (i) the number of shares of common stock acquired upon exercise of stock options by each of the named executive officers in 2015 and the value realized on exercise of the stock options and (ii) stock awards.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting	Value Realized on Vesting
(a)	(b)	(c)	(d)	(e)
Stephen C. Taylor	45,000	\$404,500	49,420	\$ 1,087,240
G. Larry Lawrence	—	—	18,333	368,859
James R. Hazlett	—	—	18,333	368,859

Potential Payments Upon Termination or Change of Control

Our 1998 Stock Option Plan and 2009 Restricted Stock/Unit Plan contains “change of control” provisions. These provisions are designed to provide some assurance that we will be able to rely upon each executive’s services and advice as to the best interests of Natural Gas Services Group and our shareholders without concern that the executive might be distracted by the personal uncertainties and risks created by any proposed or threatened change of control and to promote continuity of our executive team.

Under our stock option plan, the Committee may adjust the stock options held by our executives upon the occurrence of a change of control. With this authority, the Committee may in its discretion elect to accelerate the vesting of any stock options that were not fully vested and allow for the exercise of such options as to all shares of stock subject thereto.

Likewise, under our 2009 Restricted Stock/Unit Plan, a change in control will accelerate the vesting of all awards under the plan unless the Committee has provided otherwise in a particular award under the plan. In addition, upon death, disability or retirement, any vesting or other restrictions on the restricted stock awards will accelerate or lapse such that all shares underlying a restricted stock award will become unencumbered.

As noted in the tables above and summarized below, our named executive officers have stock options and restricted stock awards which are subject to certain vesting requirements.

At December 31, 2015, our named executive officers had the following number of unvested restricted stock awards which were subject to forfeiture as of that date:

- Stephen C. Taylor -- 83,590 shares
- G. Larry Lawrence -- 20,000 shares
- James R. Hazlett -- 20,000 shares

Each of these restricted stock awards could have become vested and issued without restrictions on December 31, 2015 assuming a change of control were to have occurred on that date. In addition, the restricted stock awards would have been issued without restrictions on December 31, 2015, assuming the named executive officer had died, became disabled or retired. The closing price of our common stock on December 31, 2015, was \$22.30 per share. Accordingly, on December 31, 2015, had there been a change in control event or had the named executive officer died, became disabled or retired, the vesting terms of the restricted stock awards would have lapsed and the shares would have become unrestricted. As a result, there was a potential for Messrs. Taylor, Hazlett and Lawrence to realize immediate value upon the lapse of restrictions on restricted stock awards as follows: Mr. Taylor --\$1,864,057; Mr. Lawrence --\$446,000; and Mr. Hazlett --\$446,000.

As described under “Compensation Agreements with Management” on page 41, we entered into a written employment agreement with Stephen C. Taylor, President, Chief Executive Officer and Chairman of the Board in October 2013. Under the employment agreement, Mr. Taylor is eligible for certain benefits in connection with a change in control. These provisions were included in Mr. Taylor’s initial employment agreement with us and were continued in his current agreement as part of our negotiations with Mr. Taylor as to the terms of his employment and as an inducement for him to continue his employ with our company. The change of control and severance provisions were designed to promote stability and continuity with respect to Mr. Taylor’s employment as our Chief Executive Officer and President.

The following table summarizes the benefits in effect as of December 31, 2015 that Mr. Taylor would receive assuming that a qualifying termination (i.e., a termination described in footnote 2 below) in connection with a change in control, death or disability or a termination by the Company without cause, or a voluntary termination by Mr. Taylor with and without good reason, occurred on December 31, 2015. Those payments that are available generally to salaried employees that do not discriminate in scope, terms or operation in favor of executive officers are also not included in this table.

Chief Executive Officer Potential Payments Table

Named Executive Officer Stephen C. Taylor	Qualifying Termination in Connection with a change in Control, Voluntary Resignation with Good Reason, or Termination by Company without Cause ⁽¹⁾ (\$)	Death or Disability ⁽²⁾ (\$)	Termination by Company with Cause, Voluntary Termination without Good Reason (\$)	Retirement ⁽²⁾ (\$)
Acceleration of Unvested Restricted Stock Units (3)	\$ 1,864,057	\$ 1,864,057	\$ —	\$ 1,864,057
Severance	3,665,675	—	—	—
Medical, Dental, and Vision Benefits	32,220	—	—	—
Life Insurance Premiums	756	—	—	—
TOTAL	\$ 5,562,708	\$ 1,864,057	\$ —	\$ 1,864,057

- (1) See "Compensation Agreements with Management" beginning on page 41 for definitions and discussion of Mr. Taylor's severance package in connection with termination due to change of control, voluntary resignation with good reason or termination by the Company without cause.
- (2) In the event of Mr. Taylor's employment terminates on account of death, disability, or qualified retirement, 100% of unvested Restricted Stock awards will immediately vest.
- (3) The value attributable to the acceleration of unvested Restricted Stock awards is based upon the number of awards multiplied by the closing price of our common stock (\$22.30) on December 31, 2015.

Chief Executive Officer Equity Compensation

In an attempt to attract and retain critical leadership talent, which the Board of Directors believes is a central element of creating durable shareholder value, the Compensation Committee is in the process of restructuring the equity incentive program for our Chief Executive Officer.

Compensation awarded under the new equity compensation program will be primarily based on the Total Shareholder Return (TSR) of the Company relative to the TSR of each member of the Company's peer group over a one-year period. In addition, the Compensation Committee will continue to exercise a degree of discretion in administering this equity compensation program given the inherent volatility in the oil and natural gas business environment as well as a number of other quantitative and qualitative factors.

As a result of discussions with our stakeholders and CEO, the Compensation Committee intends to target quantitative-based incentive equity compensation at 175% of the CEO's base salary.

Based on the Company's relative one-year TSR, the Compensation Committee envisions target multiples of the base 175% level as follows:

TSR Performance Percentile	< 25 th	25 th	50 th	75 th
<i>Number of Peers Outperformed</i>	0-2	3	6	9
Multiplier	0	.75	1.5	2.0

In addition, as noted above, the Compensation Committee retains discretion to adjust the awards based on other relevant quantitative and qualitative performance measures and for both absolute and relative extraordinary achievement in line with the objective of attracting and retaining best in class leadership.

The Compensation Committee intends to formalize this program with the Company's CEO within the next few months so that the annual equity award to be granted in 2017 will be made under the new program outlined above. In addition, as noted elsewhere in this Proxy Statement, future awards will be subject to vesting requirements under which share awards will vest in equal one-third tranches on December 31 of the grant year and the subsequent two years.

Compensation of Directors

We use a combination of cash and equity-based incentive compensation to attract and retain qualified candidates to serve on our Board of Directors. In setting compensation for our Directors, we consider the substantial amount of time that Directors expend in fulfilling their duties to us and our shareholders, as well as the skill-sets required to fulfill these duties.

The following table discloses the cash, equity awards and other compensation earned, paid or awarded, as the case may be, to each of our non-employee Directors during the fiscal years ended December 31, 2015, 2014 and 2013.

Name (a)	Year	Fees Earned Or Paid (\$) ⁽¹⁾ (b)	Stock Awards (\$) ⁽²⁾ (c)	Option Awards (\$) (d)	Non-Equity Incentive Plan Compensation (\$) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compensation (\$) (g)	Total (\$) (h)
Charles G. Curtis	2015	\$ 50,000	\$ 102,975	\$ —	\$ —	\$ —	\$ —	\$ 152,975
	2014	50,000	99,988	—	—	—	—	149,988
	2013	30,000	46,875	—	—	—	—	76,875
David L. Bradshaw	2015	60,000	102,975	—	—	—	—	162,975
	2014	60,000	99,988	—	—	—	—	159,988
	2013	40,000	46,875	—	—	—	—	86,875
John Chisholm	2015	50,000	102,975	—	—	—	—	152,975
	2014	50,000	99,988	—	—	—	—	149,988
	2013	30,000	46,875	—	—	—	—	76,875
William F. Hughes	2015	60,000	102,975	—	—	—	—	162,975
	2014	60,000	99,988	—	—	—	—	159,988
	2013	40,000	46,875	—	—	—	—	86,875

(1) Our non-employee Directors are paid a quarterly cash fee for their attendance at each meeting of our Board of Directors. The cash fee payable to our non-employee Directors for 2015 and 2014 was \$11,250 per quarter. In addition, (i) the Chairman of the Audit Committee, David L. Bradshaw and the Chairman of the Compensation Committee, William F. Hughes Jr., were entitled to an additional quarterly cash fee in the amount of \$3,750 and (ii) the Chairman of the Nominating Committee John W. Chisholm, and the Chairman of the Governance and Personnel Development Committee, Charles G. Curtis, were entitled to an additional quarterly cash fee in the amount of \$1,250. In 2013, our non-employee Directors were paid a quarterly cash fee for their attendance at each meeting of our Board of Directors. The cash fee payable to our non-employee Directors was \$7,500 per quarter. Each of our non-employee Directors received a cash fee payment of \$7,500 for the four quarters in 2013, totaling \$30,000. In addition, the Chairman of the Audit Committee, David L. Bradshaw was entitled to an additional quarterly cash fee in the amount of \$2,500; and the Chairman of the Compensation Committee, William F. Hughes Jr., was entitled the same additional quarterly cash fee of \$2,500.

(2) On March 19, 2015, each of our non-employee Directors were granted 5,492 restricted shares of common stock at an issue price of \$18.75 per share; and on March 20, 2014, each of our non-employee Directors were granted 3,288 restricted shares of common stock at an issue price of \$30.41 per share; and on March 21, 2013, each of our non-employee Directors were granted 2,500 restricted shares of common stock at an issue price of \$18.75 per share.

Cash Compensation Paid to Independent Directors

We pay our non-employee Directors a quarterly cash fee for their attendance at each meeting of our Board of Directors. The cash fee payable to our non-employee Directors for 2015 was \$11,250 per quarter. In addition, the Chairmen of the Audit and Compensation Committees were entitled to an additional quarterly cash fee in the amount of \$3,750; while the Chairmen of the Nominating and Governance and Personnel Development committees were entitled to an additional quarterly cash fee of \$1,250.

Equity Based Compensation Paid to Independent Directors

In 2013, each independent Director received a static grant of 2,500 shares of restricted shares of Company common stock for each year. Beginning in 2014, our Board of Directors revised the Company's compensation policy for independent directors so that in lieu of issuing a static 2,500 restricted shares of Company common stock as in past years, the independent directors now receive an annual award of restricted shares based upon a review of equity award values paid by other public companies in the Company's peer group and the Company's market and financial performance in comparison to such peer group companies. For 2015, based upon the Company's performance compared to its peer group, the Compensation Committee recommended and the Board approved an equity award value of approximately \$103,000 in restricted stock. In connection therewith, each of our four independent directors was granted for 2015 the amount of 5,492 shares of restricted stock pursuant to the Plan, based upon the closing price of \$18.75 per share as of March 19, 2015, the date of the grant. The restricted shares are subject to vesting whereby no shares will vest during the first year, and then upon the first anniversary date of the award, one-fourth of the shares will vest every three months so that all restricted shares will have vested on the second anniversary date of the grant of the award. Notwithstanding the vesting schedule, all of the restricted shares are subject to acceleration and will immediately vest in the case of (i) death, disability, or retirement of the recipient employee, or (ii) a change of control in the Company, as set forth in the Restricted Stock Plan.

Directors who are our employees do not receive any compensation for their services as Directors.

Other

All Directors are reimbursed for their expenses incurred in connection with attending meetings. We provide liability insurance for our Directors and officers. The cost of this coverage for 2015 was \$100,113. We do not offer non-employee Directors travel accident insurance, life insurance or a pension or retirement plan.

Compensation Agreements with Management

On October 23, 2013, we and Stephen C. Taylor entered into a new employment agreement (the "Employment Agreement"), pursuant to which Mr. Taylor continues his employment as our President and Chief Executive Officer. The new Employment Agreement became effective on the same date and Mr. Taylor's previous employment agreement with us, which was set to expire on October 25, 2013, was terminated in connection therewith.

On April 24, 2015, we entered into an amendment with Mr. Taylor to his Employment Agreement pursuant to which the "modified single trigger" change of control provision was changed to a "double trigger" change of control. Under the "modified single trigger provision", Mr. Taylor could voluntarily terminate the Employment Agreement and for any reason and collect severance benefits. Under the new "double trigger" change of control provision, a change of control must occur followed by the Company or its successor terminating Mr. Taylor's employment other than for cause, death, or disability, or by Mr. Taylor terminating his employment for Good Reason. We discuss the definitions of "Change of Control" and "Good Reason" below, along with Mr. Taylor's severance benefits in connection with these events.

The term of the Employment Agreement is for three years but the agreement contains an "evergreen" feature whereby the agreement is automatically extended on a monthly basis on the last day of each month so that the term of the agreement will always be three years unless written notice of nonrenewal is given by the Company. If a notice of nonrenewal is given, the term of employment then ends three years from the date of that written notice of nonrenewal unless terminated earlier as described below. The Employment Agreement provides for Mr. Taylor to receive a base salary, potential cash bonus, equity compensation, and certain other benefits, which are summarized below.

Base Salary. Mr. Taylor's annual 2015 base salary of \$543,063 ("Base Salary") remained the same for the remainder of 2015. However, the Base Salary will be reviewed annually at the beginning of the year by, and may be increased at the discretion of, the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee").

Bonus. Mr. Taylor will continue to be eligible for an annual cash bonus under the Company's current Annual Incentive Bonus Plan. Mr. Taylor's annual bonus opportunity payable upon achievement of "target" levels shall be at least a hundred percent (100%) of Base Salary for 2015 and at least one hundred percent (100%) thereafter. The performance metrics, weighting and thresholds for each annual bonus opportunity will be determined by the Company's Board of Directors or Compensation Committee in good faith following consultation with Mr. Taylor.

Annual Equity Compensation. Mr. Taylor will be eligible for annual grants of equity-based incentive awards under the Company's equity compensation plans. The Company has agreed to award Mr. Taylor a restricted stock award or equivalent equity awards in January of each year with an aggregate minimum value equal to at least 175% of the Executive's Base Salary, subject to vesting terms and other standard terms which shall be established by the Compensation Committee taking into account the performance of the Company, Mr. Taylor and industry norms.

Benefits. The Company will provide Mr. Taylor such retirement, and other benefits as are customarily provided to similarly situated executives of the Company, including paid vacation, coverage under the Company's medical, life, disability and other insurance plans, and reimbursement for all reasonable business expenses in accordance with the Company's expense reimbursement policy.

Termination. The Company or Mr. Taylor may terminate the agreement prior to the expiration of its Term at any time upon written notice.

Severance upon Early Termination. Mr. Taylor will be entitled to the following severance benefits during the first ten years of his employment:

(A) If (i) the Company terminates Mr. Taylor's agreement without Cause (ii) Mr. Taylor terminates the agreement for Good Reason or due to a Change of Control event (as defined below) followed by the Company or its successor terminating Mr. Taylor's agreement without cause or Mr. Taylor terminating the agreement for Good Reason or (iii) Mr. Taylor's employment is terminated due to death or disability, then he will receive (a) a lump sum payment equal to 300% of Base Salary and Annual Bonus; (b) vesting of all unvested equity awards or other long-term incentive compensation; (c) continuation of health insurance benefits and payment of any life insurance premiums for a period of 36 months after termination; and (d) receipt of any other vested benefits which had not yet been paid prior to the date of termination.

(B) If Mr. Taylor's employment is terminated for Cause or he voluntarily resigns, then he will be entitled to any unpaid compensation earned through the date of termination and receipt of any other vested benefits which had not yet been paid prior to the date of termination.

(C) If Mr. Taylor retires in compliance with the Company's retirement policy, then he will be entitled to (i) any unpaid compensation earned through the date of retirement; (ii) vesting of all unvested equity awards or other long-term incentive compensation; and (iii) receipt of any other vested benefits which had not yet been paid prior to the date of termination.

After the tenth anniversary date of Mr. Taylor's employment agreement, in the event the Company delivers to Mr. Taylor a Notice of Nonrenewal and:

(A) his employment is automatically terminated upon the expiration of the remaining three year term, Mr. Taylor shall be entitled to (i) any unpaid compensation earned through the date of retirement; (ii) vesting of all unvested equity awards or other long-term incentive compensation; and (iii) receipt of any other vested benefits which had not yet been paid prior to the date of; or

(B) his employment is terminated prior to the expiration of the remaining three year term, unless said termination is due to Cause, voluntary resignation or retirement, then Mr. Taylor shall be entitled to (i) lump sum payment of his Base Salary at the time of termination for the remainder of the three year term of the agreement; (ii) a lump sum cash payment equal to 100% of the Annual Bonus for each full year (if any) remaining in the three year term, plus a pro-rata portion of such Annual Bonus for any partial remaining year in the three year term; (iii) vesting of all unvested equity awards or other long-term incentive compensation; (iv) continuation of health insurance benefits and payment of any life insurance premiums for the remainder of the three year term of the agreement; and (v) receipt of any other vested benefits which had not yet been paid prior to the date of termination.

Under the Employment Agreement, a "Change of Control" event includes (i) the acquisition by a person, entity or group of related persons or entities of more than 30% of the total voting power in the Company (excluding sales to underwriters in a public offering); (ii) consummation of the sale of 50% or more of the Company's assets; (iii) consummation of a merger or

consolidation of the Company with or into an entity unless the voting securities of the Company immediately prior to the merger or consolidation continue to represent more the 70% of the voting power of the surviving entity after the merger or consolidation; and (iv) replacement of at least a majority of the incumbent members of the Company's Board of Directors, excluding directors whose election to the Board was approved by at least a majority of the then incumbent directors, subject to further limited exceptions as set forth in the "Change of Control" definition in Employment Agreement.

Under the Employment Agreement, a "Good Reason" event includes (i) a material diminution of Mr. Taylor's duties, control, authority or status or position or a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the board of directors; (ii) a material reduction in Mr. Taylor's compensation; (iii) a material breach by the Company of the Employment Agreement; or (iv) a relocation of more than fifty miles of Mr. Taylor's principal office with the Company or its successor. And in connection with a termination due to Change of Control, the following provisions also constitute "Good Reason" events: (i) a material diminution of Mr. Taylor's duties, control, authority or status or position or a requirement that Mr. Taylor report to a corporate officer or employee instead of reporting directly to the Company's or successor's board of directors depending on its composition after the change in control; (ii) the failure of the Company or successor to continue in effect any plan in which Mr. Taylor participates immediately prior to the Change in Control which is material to the Executive's total compensation, unless an equitable arrangement has been made with respect to any such plan on a basis not less favorable, both in terms of the amount or timing of payment of benefits provided; and (iii) a material breach by the Company or its successor of the Employment Agreement or any other material agreement between Mr. Taylor and the Company or its successor.

Non-Competition and Non-Solicitation. In connection with the payment of the severance benefits described above, for a period of two years following Mr. Taylor's separation from the Company, he may not compete with the Company in any geographic area within a 100 mile radius of a Company owned or leased facility which is Company staffed and actively engaging in business on behalf of the Company.

We do not have any written employment agreements with our other named executive officers.

Limitation on Directors' and Officers' Liability

Our Articles of Incorporation provide our Directors and Officers with certain limitations on liability to us or any of our shareholders for damages for breach of fiduciary duty as a Director or officer involving certain acts or omissions of any such Director or Officer.

This limitation on liability may have the effect of reducing the likelihood of derivative litigation against Directors and Officers and may discourage or deter shareholders or management from bringing a lawsuit against Directors and Officers for breach of their duty of care even though such an action, if successful, might otherwise have benefited our shareholders and us.

Our Articles of Incorporation and bylaws provide certain indemnification privileges to our Directors, employees, agents and officers against liabilities incurred in legal proceedings. Also, our Directors, employees, agents or officers who are successful, on the merits or otherwise, in defense of any proceeding to which he or she was a party, are entitled to receive indemnification against expenses, including attorneys' fees, incurred in connection with the proceeding.

We are not aware of any pending litigation or proceeding involving any of our Directors, Officers, employees or agents as to which indemnification is being or may be sought, and we are not aware of any other pending or threatened litigation that may result in claims for indemnification by any of our Directors, officers, employees or agents.

Even though we maintain Directors' and Officers' liability insurance, the indemnification provisions contained in our Articles of Incorporation and bylaws remain in place.

Procedures for Reviewing Certain Transactions

On March 7, 2007, we adopted a written policy for the review, approval or ratification of related party transactions. All of our officers, Directors and employees are subject to the policy. Under this policy, the Audit Committee will review all related party transactions for potential conflict of interest situations. Generally, our policy defines a “related party transaction” as a transaction in which we are a participant and in which a related party has an interest. A “related party” is:

- any of our Directors, Officers or employees or a nominee to become a Director;
- an owner of more than 5% of our outstanding common stock;
- certain family members of any of the above persons; and
- any entity in which any of the above persons is employed or is a partner or principal or in which such person has a 5% or greater ownership interest.

Approval Procedures

Before entering into a related party transaction, the related party or our department responsible for the potential transaction must notify the CEO or the Audit Committee of the facts and circumstances of the proposed transaction. If the amount involved is equal to or less than \$100,000, the proposed transaction will be submitted to the CEO. If the amount involved exceeds \$100,000, the proposed transaction will be submitted to the Audit Committee. Matters to be submitted will include:

- the related party’s relationship to us and interest in the transaction;
- the material terms of the proposed transaction;
- the benefits to us of the proposed transaction;
- the availability of other sources of comparable properties or services; and
- whether the proposed transaction is on terms comparable to terms available to an unrelated third party or to employees generally.

The CEO or the Audit Committee, as applicable, will then consider all of the relevant facts and circumstances available, including the matters described above and, if applicable, the impact on a director’s independence. Neither the CEO nor any member of the Audit Committee is permitted to participate in any review, consideration or approval of any related party transaction if such person or any of his or her immediate family members is the related party. After review, the CEO or the Audit Committee, as applicable, may approve, modify or disapprove the proposed transaction. Only those related party transactions that are in, or are not inconsistent with, our best interests and that of our shareholders will be approved.

Ratification Procedures

If one of our officers or Directors becomes aware of a related party transaction that has not been previously approved or ratified by the CEO or the Audit Committee then, if the transaction is pending or ongoing, the transaction must be submitted, based on the amount involved, to either the CEO or the Audit Committee and the CEO or the Audit Committee will consider the matters described above. Based on the conclusions reached, the CEO or the Audit Committee, as applicable, will evaluate all options, including ratification, amendment or termination of the related party transaction. If the transaction is completed, the CEO or the Audit Committee will evaluate the transaction, taking into account the same factors as described above, to determine if rescission of the transaction or any disciplinary action is appropriate, and will request that we evaluate our controls and procedures to determine the reason the transaction was not submitted to the CEO or the Audit Committee for prior approval and whether any changes to the procedures are recommended.

We did not have any related party transactions in 2015 with our Officers or Directors.

PRINCIPAL SHAREHOLDERS AND SECURITY OWNERSHIP OF MANAGEMENT

For purposes of the following tables, "beneficial ownership" is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, pursuant to which a person or group of persons is deemed to have "beneficial ownership" of any shares of Common Stock that such person has the right to acquire within 60 days.

The following table indicates the beneficial ownership of our Common Stock as of April 22, 2016 by: (1) each of our current directors and nominees for election; (2) our chief executive officer, principal accounting officer and our other named executive officers (as defined in Item 402(a) (3) of Regulation S-K) (together as a group, the "*Named Executive Officers*"); and (3) all of our current directors, nominees and executive officers as a group, based on our records and data supplied by each of the current directors, nominees and executive officers.

Name of Beneficial Owner and Position	Amount and Nature of Beneficial Ownership ⁽¹⁾	Percent of Class
Directors & Nominees Who Are Not Named Executive Officers		
John W. Chisholm Current Director & Director Nominee	36,340 ⁽²⁾	*
Charles G. Curtis Current Director	85,021 ⁽³⁾	*
William F. Hughes, Jr. Current Director	149,164 ⁽⁴⁾	1.16%
David L. Bradshaw Current Director	19,048	*
Named Executive Officers		
Stephen C. Taylor Chief Executive Officer, Current Director	446,590 ⁽⁵⁾	3.47%
James R. Hazlett Vice President – Technical Services	92,723 ⁽⁶⁾	*
G. Larry Lawrence Chief Financial Officer	56,221 ⁽⁷⁾	*
All Directors (and nominees) and executive officers as a group (7 persons)	885,107 ⁽⁸⁾	6.88%

* Less than one percent.

(1) The number of shares listed includes all shares of common stock owned by, or which may be acquired within 60 days of April 22, 2016 upon exercise of warrants and options held by the shareholder (or group). Beneficial ownership is calculated in accordance with the rules of the Securities and Exchange Commission. Unless otherwise indicated, all shares of common stock are held directly with sole voting and investment powers. As of April 22, 2016, none of the shares of common stock owned by our officers and Directors had been pledged as collateral to secure repayment of loans.

(2) Includes 15,000 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.

(3) Includes 12,500 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.

(4) Includes 110,500 shares of common stock indirectly owned by Mr. Hughes through the William and Cheryl Hughes Family Trust. Mr. and Mrs. Hughes are co-trustees of the William and Cheryl Hughes Family Trust and have shared voting and investment powers with respect to the shares held by the trust. Mr. and Mrs. Hughes are beneficiaries of the trust along with their two children.

(5) Includes 148,852 shares of common stock that may be acquired upon exercise of stock options granted to Mr. Taylor.

(6) Includes 25,000 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.

(7) Includes 5,000 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.

(8) Includes 206,352 shares of common stock that may be acquired upon exercise of stock options.

The following table sets forth information as of April 22, 2016 regarding the beneficial owners of more than five percent of the outstanding shares of our Common Stock. To our knowledge, there are no beneficial owners of more than five percent of the outstanding shares of our Common Stock as of April 22, 2016 other than those set forth below.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Blackrock, Inc. 40 East 52 nd Street New York, New York 10022	796,871 ⁽¹⁾	6.19%
Neuberger Berman Group LLC 605 Third Avenue New York, New York 10158	1,046,735 ⁽²⁾	8.14%
Dimensional Fund Advisors Palisades West, Building One, 6300 Bee Cave Road Austin, Texas 78746	996,460 ⁽³⁾	7.73%

(1) As reported in Amendment No. 6 to Schedule 13G filed with the Securities and Exchange Commission on January 27, 2016. According to the filing, Blackrock, Inc. has the sole voting and dispositive power over the shares reported in the table above.

(2) As reported in Amendment No. 7 to Schedule 13G filed with the Securities and Exchange Commission on February 9, 2016. According to the filing, Neuberger Berman Group LLC and Neuberger Berman LLC beneficially own the shares.

(3) As reported in Amendment No. 3 to schedule 13G filed with the Securities and Exchange Commission in February 9, 2016. According to the filing, Dimensional Fund Advisors holds voting and/or investment power over the shares, but economic ownership is beneficially by four investment companies.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors, officers and persons who beneficially own more than 10% of our Common Stock to file certain reports of beneficial ownership with the Securities and Exchange Commission. These reports show the Directors', officers' and greater than 10% shareholders' ownership and the changes in ownership of our common stock and other equity securities. The SEC regulations also require that a copy of all such Section 16(a) forms filed must be furnished to us by the person or entity filing the report.

Based on a review of Section 16(a) filings furnished to us, all transactions in our equity securities required to be reported by Section 16(a) of the Securities Exchange Act of 1934, as amended, were reported on a timely basis, except for the following: In January and March of 2015, with respect to the vesting of certain restricted common stock awards, the following of our officers and directors inadvertently failed to timely file Form 4's relating to the disposal of the number of shares listed in connection with

their election to withhold shares in payment of income tax obligations arising from the vesting of the awards: David Bradshaw - 206 shares; John Chisholm - 206 shares; James R. Hazlett - two transactions of 1,088 and 4,066 shares; G. Larry Lawrence - two transactions of 1,088 and 4,067 shares; and Stephen C. Taylor - 20,547 shares. Appropriate Form 4's were filed in June 2015 when the error was discovered.

In addition, in December of 2015 Charles G. Curtis inadvertently failed to timely file a Form 4 in connection with the exercise of a stock option for 2,500 shares of our common stock. Mr. Curtis filed a Form 4 reporting the missed transaction in January 2016.

All of the foregoing late filings related to exempt transactions under Section 16.

REPORT OF THE AUDIT COMMITTEE

The following report of the Audit Committee of the Company shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall this report be incorporated by reference into any filing made by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates such information by reference in such filing.

Our Audit Committee, pursuant to its charter, is responsible for (i) overseeing the integrity of our financial statements; (ii) financial reporting processes; (iii) compliance with legal and regulatory requirements; (iv) the independent registered public accounting firm qualifications and independence; (v) annually reviewing and assessing the committee's performance and its charger; (vi) and the performance of our internal accounting functions and independent registered public accounting firm.

Our independent registered public accounting firm is responsible for performing an independent audit of our financial statements in accordance with the Standards of the Public Company Accounting Oversight Board (United States) and to issue a report thereon. The Audit Committee reviews with management our financial statements and management's assessment of internal controls over financial reporting; reviews with the independent registered accounting firm their independent report on the condition of the Company's financial statements; and reviews the activities of the independent registered public accounting firm. The Audit Committee selects our independent registered public accounting firm each year. The Audit Committee also considers the adequacy of our internal controls and accounting policies. While the Audit Committee has the responsibilities and powers set forth in its charter, and the Company's management and the independent registered public accounting firm are accountable to the Audit Committee, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable laws, rules and regulations. The chairman and members of the Audit Committee are all independent Directors of our Board of Directors within the meaning of Section 303A of the New York Stock Exchange Listed Company Manual.

The Audit Committee has reviewed and discussed our audited financial statements with our management. The Audit Committee has also received from, and discussed with, BDO the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 16 (Communications with Audit Committees). In addition, the Audit Committee has received the written disclosures and the letter from our independent registered public accounting firm required by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Audit Committee has received the written disclosures and the letter from our independent registered public accounting firm matters pertaining to their independence. Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for 2015 for filing with the Securities and Exchange Commission. See "*Proposal 4— Ratification of Appointment of Independent Registered Accounting Firm*" on page 55.

Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by the Company's management and independent registered public accounting firm. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations.

Respectfully submitted by the Audit Committee,

David L. Bradshaw, Chairman

Charles G. Curtis

William F. Hughes, Jr.

PROPOSAL 2 – CONSIDERATION OF AN ADVISORY VOTE ON COMPENSATION PROGRAMS FOR ITS NAMED EXECUTIVE OFFICERS

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), gives the stockholders the right to endorse or not endorse the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with the SEC’s rules. The proposal, commonly known as a “Say-on-Pay” proposal, gives our shareholders the opportunity to express their views on the Company’s executive compensation.

At the Company’s annual meeting of shareholders held in June 2011, our shareholders recommended that the advisory vote on the Say-on-Pay of our named executives in our proxy materials be submitted annually, notwithstanding that our Board of Directors recommended that the advisory vote be submitted every third year. In light of the recommendation of the shareholders, we intend to include the Say-on-Pay advisory vote in our proxy materials on an annual basis until the next shareholder vote on the frequency of Say-on-Pay or our Board of Directors otherwise determines that a different frequency of Say-on-Pay vote is in the best interests of the shareholders.

We are asking our stockholders to indicate whether or not they support the compensation program as described in this proxy statement. This proposal is not intended to address any specific item of compensation, but rather the overall compensation of the named executive officers and the compensation policies, methodologies and practices described in this proxy statement. Accordingly, we ask our shareholder to vote “FOR” the following resolution at our annual meeting:

“RESOLVED, that the shareholders approve the compensation of the Company’s named executive officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosure contained in the proxy statement set forth under the caption “Executive Compensation” of this proxy statement.”

The Company believes its compensation philosophy and programs are strongly linked to performance and results and appropriately aligned with the interests of stockholders. Our compensation philosophy is to provide an executive compensation program that:

- rewards performance and skills necessary to advance our objectives and further the interests of our shareholders;
- is fair and reasonable and appropriately applied to each executive officer;
- is competitive with compensation programs offered by our competitors; and
- is appropriately focused on achieving annual financial and operational goals through the Company’s cash bonus plan and on maximizing stockholder value over the long term, through grants of restricted shares and stock options.

The Board of Directors recommends that you vote FOR approval, on an advisory basis, of the compensation programs of our named executive officers as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosure contained in the proxy statement set forth under the caption “Executive Compensation” of this proxy statement.

PROPOSAL 3 - APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE 1998 STOCK OPTION PLAN

Proposal

To consider and vote upon a proposal to amend and restate the Natural Gas Services Group, Inc. Stock Option Plan to (1) increase the number of shares authorized for issuance thereunder from 750,000 to 1,000,000 shares of common stock and (2) extend the term of the Plan for an additional ten years, until February 28, 2026.

History of the Plan and Description of the Proposed Amendment

On December 18, 1998, the Board of Directors adopted the 1998 Stock Option Plan of Natural Gas Services Group, Inc. (the "1998 Plan" or simply the "Plan"), and directed that the 1998 Plan be submitted to the shareholders for approval. The 1998 Plan became effective when it received such approval on December 18, 1998. On May 9, 2006, the Compensation Committee of the Board of Directors voted to amend the 1998 Plan and the amendments were approved by our shareholders at our 2006 Annual Meeting of Shareholders (the "2006 Plan"). The 2006 Plan amendments, among other things, extended the terms of 1998 Plan until March 1, 2016 and increased the number of shares of common stock issuable under the 2006 Plan from 150,000 to 550,000. On April 15, 2009, the Compensation Committee of the Board of Directors voted to further amend the Plan to add an additional 200,000 shares of common stock to the Plan, thereby authorizing the issuance of up to 750,000 shares of common stock under the Plan and the amendment was approved at our 2009 Annual Meeting of Shareholders.

On April 5, 2016, subject to shareholder approval, the Board of Directors voted to amend and restate the Plan to extend the Plan until February 28, 2026 (the "2016 Plan" or simply the "Plan") and increase the number of shares of common stock issuable under the Plan from 750,000 to 1,000,000.

The 2016 Plan amendment will become effective if a majority of the votes cast are in favor of the proposal. If the amendment is not approved, no further options may be granted under the 2006 Plan, although all options granted prior to March 1, 2016, which continue to be outstanding, will remain in force until such time as the options are either exercised or expire pursuant to the terms set forth in such options.

The purposes of the Plan, which are unchanged by the proposed amendment, are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees and consultants and to promote the success of our business.

Summary Description of the Plan

The following summary of the Plan, as amended and restated, is qualified in its entirety by reference to the text of the Plan, as amended and restated, which is attached as *Appendix A*. The Plan has been and will continue to be administered by the Compensation Committee of the Board of Directors. The Compensation Committee has full and final authority, in its discretion, to grant incentive stock options or non-statutory stock options, to select the persons who would be granted stock options and determine the number of shares subject to each option, the duration and exercise period of each option and the terms and conditions of each option granted.

The Major Provisions of the Plan as amended and restated are as follows:

Eligibility. The Compensation Committee is authorized to grant stock options to any person selected by the Compensation Committee, including employees, officers who are also directors of Natural Gas Services Group, directors who are not employees of Natural Gas Services Group and consultants. Incentive stock options may be granted only to employees of Natural Gas Services Group.

Option Price. The option exercise price for shares of common stock issued upon exercise of an option is such price as is determined by the Compensation Committee. However, for incentive stock options granted to employees the option price will be not less than 100% of the fair market value of the Company's common stock on the date the option is granted, except that if an incentive stock option is granted to an employee who owns more than 10% of our outstanding common stock, the option price will be not less than 110% of the fair market value of the common stock on the date of grant. Fair market value for purposes of the Plan is the closing price of the common stock as reported on the New York Stock Exchange on the relevant date.

Duration of Options. Each stock option will terminate on the date fixed by the Compensation Committee, which shall be not more than ten years after the date of grant. However, in the case of an incentive stock option granted to an employee who, at the time the option is granted, owns stock representing more than 10% of the our outstanding stock, the term of the option will be five years from the date of grant or such shorter time as may be provided in the stock option agreement.

Exercise Period. In the case of incentive stock options, if an optionee's employment is terminated for any reason, except death or disability, the optionee has three months in which to exercise an option (but only to the extent exercisable on the date of termination) unless the option by its terms expires earlier. If the employment of the optionee terminates by reason of total and permanent disability, the option may be exercised during the period of twelve months following termination of employment. If an optionee dies while an employee or within three months from the date of termination, the right to exercise shall terminate twelve months from the date of death. The options terminate immediately prior to the dissolution or liquidation of Natural Gas Services Group, unless the Compensation Committee gives each optionee the right to exercise his option as to all or any part of the option, including shares as to which the option would not otherwise be exercisable. If we sell all or substantially all of our assets or we merge with or into another entity in a transaction in which it is not the survivor, options will be assumed or an equivalent option will be substituted by the successor corporation, unless the Compensation Committee determines that the optionee has the right to exercise the option as to all of the shares, including shares as to which the option would not otherwise be exercisable. The Compensation Committee has the right to alter the terms of any option at grant or while outstanding pursuant to the terms of the Plan.

Payment. Payment for stock purchased on the exercise of a stock option must be made in full at the time the stock option is exercised. The Compensation Committee may, in its discretion, permit payment for the exercise price to be made in cash, check, other shares of common stock having a fair market value on the date of exercise equal to the aggregate exercise price of the shares as to which the option is exercised, or any combination of such methods of payment, or such other consideration and method of payment for the issuance of shares as permitted under the Colorado Business Corporation Act.

Shares That May Be Issued under the Plan. Prior to the increase in authorized shares set forth in this proposal, a maximum of 750,000 shares of our common stock, as may be adjusted as described below, may be issued upon exercise of stock options granted under the Plan. This number includes the number of shares of Natural Gas' common stock originally authorized in 1998 (150,000 shares) plus the additional shares added in the 2006 and 2009 amendments (600,000 shares). In connection with extending and restating the Plan, a total of 250,000 additional shares will be authorized pursuant to this proposed amendment. The 250,000 additional shares available represent approximately 1.9% of our common stock issued and outstanding on April 18, 2016. At the date of this proxy statement, 241,812 shares of common stock have already been issued under the Plan and 414,769 shares are subject to currently outstanding stock options, leaving 93,419 shares of common stock available from the 750,000 shares authorized prior to this proposal. The number of shares available under the Plan is subject to adjustment in the event of any stock split, stock dividend, recapitalization, spin-off or other similar action. If any stock option terminates or is canceled for any reason without having been exercised in full, the shares of stock not issued will then become available for additional grants of options.

Federal Income Tax Consequences Federal Income Tax Consequences

Incentive Stock Options. Some of the options granted under the Plan may constitute "incentive stock options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Under current federal income tax rules, there will be no federal income tax consequences to us or an optionee upon the grant of an ISO, nor will an optionee's exercise of an ISO result in income recognition to the optionee or a deduction or other federal income tax consequences to Natural Gas Services Group. Although an optionee will not realize ordinary income upon his exercise of an ISO, the excess of the fair market value of the common stock acquired at the time of exercise over the option price may constitute an adjustment in computing alternative minimum taxable income under Section 56 of the Code and, thus, may result in the imposition of the "alternative minimum tax" pursuant to Section 55 of the Code on the optionee. The tax consequences of a disposition of stock acquired upon exercise of an ISO depends upon how long the optionee has held the shares. If an optionee does not dispose of common stock acquired through an ISO within two years after the ISO was granted, nor within one year of the ISO's date of exercise, any gain realized upon a subsequent disposition of common stock will constitute long-term capital gain (or loss) to the optionee equal to the difference between the sale price of the shares and the exercise price. We are not entitled to any deduction under these circumstances. If the optionee fails to satisfy either of the foregoing holding periods, he must recognize ordinary income in the year of the disposition, which is referred to as a "disqualifying disposition". Upon the occurrence of a disqualifying disposition of an ISO, the amount of such ordinary income generally is the lesser of (i) the excess of the fair market value of the common stock on the date of exercise over the option price or (ii) the actual gain realized upon such disposition. Any gain in excess of the amount taxed as ordinary income will be treated as a long-term or short-term capital gain, depending on how long the stock was held (currently a period of more than one year). We will receive a deduction in the amount equal to the amount constituting ordinary income to an optionee in the year of the disqualifying disposition (in addition to the employer's side of payroll/withholding taxes paid).

Non-statutory Options. Certain stock options which do not constitute ISOs (“non-statutory options”) may also be granted under the Plan. Under current federal income tax rules, there will generally be no federal income tax consequences to us or the optionee upon the grant of a non-statutory option so long as the exercise price of the option is equal to or exceeds the fair market value of the underlying stock as of the date of grant. However, the optionee will realize ordinary income upon the exercise of a non-statutory option in an amount equal to the excess of the fair market value of the common stock acquired upon the exercise of such option over the option price. We are required to pay the applicable payroll taxes on such income of the optionee, and we are required to withhold and pay over to the relevant tax authorities the applicable income tax withholding and employee portion of payroll taxes on this income (which the optionee is required to pay over to us). We will receive a corresponding deduction in the amount of the income recognized by the optionee (subject to possible limitations imposed by Section 162(m) of the Code), as well as a deduction for the employer’s portion of payroll taxes paid. Any gain or loss realized upon the optionee’s subsequent disposition of such common stock will constitute short-term or long-term capital gain or loss depending on the optionee’s holding period following the date of exercise (currently a period of more than one year). We do not receive a tax deduction for any such capital gain.

The federal income tax consequences described in this section are based on laws and regulations in effect on the date of this proxy statement, and there is no assurance that the laws and regulations will not change in the future and affect the tax consequences of the matters discussed in this section.

Termination of and Amendments to the Plan

The Board of Directors may terminate or amend the Plan from time to time in any manner permitted by applicable laws and regulations, except that no additional shares of our common stock may be allocated to the Plan and no change in the class of employees eligible to receive incentive stock options or any other material amendment to the Plan may be made without the approval of the shareholders.

Market Price of the Company's Common Stock

The closing market price of our common stock as reported on the New York Stock Exchange for April 18, 2016 was \$22.17 per share.

Estimate of Benefits

Generally, awards under the Plan are subject to the discretion of the Committee, and no determination has been made as to the types or amounts of awards that will be granted in the future to specific individuals pursuant to the Plan. Therefore, it is not possible to determine the future benefits that will be received by all potential participants. However, for illustrative purposes, 50,000 options were granted to 17 employees under the Plan during the fiscal year ended December 31, 2015.

Although executive officers and members of our Board of Directors are eligible to receive awards under the Plan, since 2006, awards under the Plan have been made exclusively to non-executive employees of the Company.

Equity Compensation Plan Information

The table below sets forth certain information, as of March 31, 2016, concerning shares of common stock authorized for issuance under all of the Company's equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options or Issued upon Vesting	Weighted-average Issuance or Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders:			
Stock Option Plan	392,019	\$ 19.28	93,419
Restricted Stock / Unit Plan	92,391	\$ 21.53	331,541
Total	484,410		424,960

Dilution, Burn Rate and Overhang

We actively manage our long-term dilution by limiting the number of shares subject to equity awards that we grant annually, expressed as a percentage of weighted average common shares outstanding and referred to as burn rate. Burn rate is another measure of dilution that shows how rapidly a company is depleting its shares reserved for equity compensation plans and measures the potential dilutive effect of annual equity grants. Our burn rate for 2015 was 1.5%.

An additional metric that we use to measure the cumulative impact of our equity programs is overhang (number of shares subject to equity awards outstanding under our equity plans but not exercised or settled, plus number of shares available to be granted, divided by weighted average common shares outstanding plus available equity awards under our equity plans). Our overhang as of December 31, 2015 was 7.7%. If the proposal to extend the Plan and increase the shares reserved for issuance under the plan by 250,000 shares is approved, our overhang as of that date would increase to 9.4% and then would be expected to decline over time.

The following are the factors that were material to the evaluation of the Compensation Committee and Board, with input from management, in determining acceptable and targeted levels of dilution: competitive data from relevant peer companies, the current and future accounting expense associated with the Company's equity award practices, and the influence of shareholder advisory firms. The Company's equity programs are revisited at least annually and assessed against these (and other) measures. We believe that the Company's burn rate and overhang (with or without the extension and additional shares requested under the Plan) are reasonable and reflect a prudent use of equity for compensation purposes.

Summary

We strongly believe the approval of the amended and restated Plan which extends the plan for an additional 10-year term and increases the number of authorized shares for issuance from 750,000 to 1,000,000 is essential to our continued success. Awards such as those provided under the Plan provide an important incentive for participants and will help us to attract, retain and motivate qualified individuals to serve on behalf of our company.

Vote Required

Approval of this proposal requires the affirmative vote of the holders of a majority of the shares casting votes in person or by proxy on this proposal at the Annual Meeting. The number of such affirmative votes must be at least a majority of the required quorum for the meeting.

Recommendation of the Board of Directors

The Board believes the proposed amendments to and restatement of the Plan are in the best interests of Natural Gas Services Group and its shareholders, as the availability of an adequate number of shares reserved for grant under the Plan and the other amended terms described above will assist in the recruitment and retention of the best available personnel.

The Board of Directors of Natural Gas Services Group recommends a vote "FOR" the proposal to amend and restate the Stock Option Plan, a copy which is included in this Proxy Statement as Appendix A. Proxies received by the Board of Directors will be so voted unless shareholders specify in their proxies a contrary choice.

PROPOSAL 4 – RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We are asking the shareholders to ratify the Audit Committee’s appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016. BDO USA, LLP is a registered public accounting firm with the Public Company Accounting Oversight Board (“PCAOB”), as required by the Sarbanes-Oxley Act of 2002 and the rules of the PCAOB. Shareholder ratification of the appointment is not required under the laws of the State of Colorado, but the Board believes it is important to allow the shareholder to vote on the proposal. In the event the shareholders fail to ratify the appointment, the Audit Committee will reconsider this appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in our best interests and that of our shareholders.

BDO USA, LLP representatives are expected to attend the 2016 Annual Meeting in person. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

Principal Accountant Fees

Our principal accountant for the fiscal years ended December 31, 2013, 2014 and 2015 was BDO USA, LLP.

Audit Fees

The aggregate fees billed for professional services rendered by BDO USA, LLP for the audit of our financial statements for our fiscal years ended December 31, 2014 and 2015 and the review of the financial statements on Forms 10-Q for the fiscal quarters in such fiscal years were approximately \$236,000 and \$273,916, respectively.

Audit Related Fees

During the years ended December 31, 2014 and 2015, there were no audit related fees.

Tax Fees

We were not billed any tax fees by BDO USA, LLP during the years ended December 31, 2014 or 2015.

All Other Fees

No other fees were billed by BDO USA, LLP, during our fiscal years ended December 31, 2014 and 2015, other than as described above.

Audit Committee Pre-Approval Policies and Procedures

As of the date of this proxy statement, our Audit Committee has not established general pre-approval policies and as of December 31, 2015, our Audit Committee had not established pre-approval policies and procedures for the engagement of our principal accountant to render audit or non-audit services. However, in accordance with Section 10A(i) of the Exchange Act, our Audit Committee, as a whole, approves the engagement of our principal accountant prior to the accountant rendering audit or non-audit services.

Certain rules of the Securities and Exchange Commission provide that an auditor is not independent of an audit client if the services it provides to the client are not appropriately approved, subject, however, to a *de minimus* exception contained in the rules. The Audit Committee pre-approved all services provided by BDO USA, LLP in 2015 and the *de minimus* exception was not used.

The Board of Directors recommends that the shareholders vote “FOR” the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016.

PROPOSAL 5 - CONSIDERATION OF AN AMENDMENT TO THE COMPANY'S BYLAWS TO IMPLEMENT A MAJORITY VOTING STANDARD IN UNCONTESTED ELECTIONS OF DIRECTORS

Background

The Company has received a proxy statement proposal from a shareholder under Securities and Exchange Commission Rule 14a-8 requesting that a proposal be included in this Proxy Statement which would require the Board of Directors to initiate the appropriate process to provide that director nominees be elected by the affirmative vote the majority votes cast at an annual meeting in connection with uncontested elections. For reasons set forth below, and consistent with recent corporate governance initiatives described in this proxy statement, the Board of Directors agreed with the request and has initiated the process.

Amendment

The Board of Directors has adopted and recommends that shareholders approve an amendment (the "Amendment") to the Company's Bylaws to implement a majority voting standard for the election of directors in uncontested elections. A copy of the proposed amendment to the Bylaws is attached as *Appendix B* to this Proxy Statement.

Implementation and Purpose of the Amendment

Section 7-107-209 of the Colorado Business Corporation Act (the "Act") and the Company's Bylaws provide that directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting in which a quorum is present. Under plurality voting, director nominees receiving the greatest number of votes "for" election (although not necessarily a majority) are elected as directors.

Section 7-107-208 of the Act provides that a Colorado corporation may impose a greater voting requirement for the election of directors, if authorized by its articles of incorporation or, if authorized by the articles of incorporation, through bylaws adopted by the shareholders. The Company's Articles of Incorporation provide that the Bylaws may provide for a greater voting requirement as long as such Bylaws are adopted by the Company's shareholders.

Considering the foregoing, the Board of Directors has amended Section 10 of Article II of the Bylaws to provide for a majority voting standard in uncontested director elections. Under the new majority voting standard, a nominee for director in an uncontested election shall be elected to the Board if the votes cast for such nominee's election exceed the votes cast against such nominee's election. For this purpose, abstentions and broker non-votes will not count as votes cast. Directors will continue to be elected by plurality vote at any meeting of shareholders where the number of director nominees exceeds the number of directors to be elected, commonly referred to as a contested election. In the event a director fails to receive a majority of the votes cast in an uncontested election, the Board of Directors may, within its powers, decrease the number of directors, fill the vacancy, or take other appropriate action.

The transition from plurality voting to majority voting in the election of Directors is a current trend in corporate governance, with a significant majority of the companies in the S&P 500 having adopted the majority vote standard. By requiring that a Director nominee receive a majority of the votes cast (excluding abstentions and broker non-votes) in favor of his or her election to the Board of Directors, shareholders are provided with a more meaningful role in the election of Directors. Under the Company's current plurality voting standard in connection with uncontested elections, a nominee for the Board can be elected with as little as a single affirmative vote, because withheld votes have no effect.

If this proposal is approved by our shareholders, the Board of Directors will revise its director resignation policy to provide that any incumbent director who does not receive a majority of the votes cast is required to tender his or her resignation.

The Board continues to believe that the plurality vote standard should continue to apply in contested director elections. If a majority vote standard is used in a contested election, fewer candidates could be elected to the Board than the number of authorized board seats if too many directors receive more "against" than "for" votes. Therefore, the Amendment retains plurality voting in contested director elections.

Vote Required

Approval of this proposal requires the affirmative vote of the holders of a majority of the shares casting votes in person or by proxy on this proposal at the Annual Meeting. The number of such affirmative votes must be at least a majority of the required quorum for the meeting.

Effective Date

If approved by the Company's shareholders, the Amendment will become immediately effective. The new majority voting standard would then be applicable to an uncontested election of directors at the Company's 2017 annual meeting of shareholders.

Our Board of Directors recommends a vote "FOR" approval of the amendment to the Bylaws to implement a majority voting standard in uncontested elections of Directors.

SHAREHOLDER PROPOSALS

Under SEC Rule 14a-8, if a shareholder wants us to include a proposal in our proxy statement and form of proxy for presentation at our 2017 Annual Meeting of Shareholders, the proposal must be received by us at our principal executive offices at 508 West Wall Street, Suite 550, Midland, Texas 79701 by December 19, 2016, unless the date of our 2017 Annual Meeting of Shareholders is more than 30 days from the anniversary date of our 2016 Annual Meeting of Shareholders, in which case the deadline is a reasonable time before we print and mail our proxy materials for the 2017 Annual Meeting of Shareholders. The proposal should be sent to the attention of the Secretary of Natural Gas Services Group.

Rule 14a-4 of the SEC's proxy rules allows a company to use discretionary voting authority to vote on matters coming before an annual meeting of shareholders for the prior year's annual meeting of shareholders or the date specified by an overriding advance notice provision in the company's bylaws. Our bylaws do not contain such an advance notice provision. Accordingly, for our 2017 annual meeting, shareholders' written notices must be received by us before March 9, 2017 for any proposal a shareholder wishes to bring before the meeting but for which such shareholder does not seek to have a written proposal considered for inclusion in the proxy statement and form of proxy. Your notice should be addressed to President, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701.

In order to curtail controversy as to the date on which a proposal was received by us, it is suggested that proponents submit their proposals by certified mail-return receipt requested. Such proposals must also meet the other requirements established by the SEC for shareholder proposals.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Because of our relatively small size, to date we have not developed formal processes by which shareholders or other interested parties may communicate directly with Directors. Until formal procedures are developed and posted on our website (www.ngsgi.com), any communication to one or more members of our Board of Directors may be made by sending them in care of Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. Shareholders should clearly note on the mailing envelope that the letter is a "Shareholder-Board Communication." All such communications will be forwarded to the intended recipients.

OTHER MATTERS

Our Board of Directors does not know of any matters to be presented at the meeting other than the matters set forth herein. If any other business should come before the meeting, the person's named in the enclosed proxy card will vote such proxy according to their judgment on such matters.

New York Stock Exchange Certification. We listed our common stock on the New York Stock Exchange in October 2008. The certification of our Chief Executive Officer required by the NYSE Listing Standards, Section 303A.12(a), relating to our compliance with the NYSE Corporate Governance Listing Standards, was submitted to the NYSE on June 4, 2015, in connection with our listing on the exchange. The certifications of our Chief Executive Officer and Principal Accounting Officer required by the SEC in connection with our Annual Report on Form 10-K for the year ended December 31, 2015, were submitted to the SEC on March 11, 2016, with our Annual Report on Form 10-K.

You may obtain our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, without charge upon written request to Stephen C. Taylor, President, at Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. In addition, the exhibits to the Annual Report on Form 10-K for the fiscal year ended December 31, 2015, may be obtained by any shareholder upon written request to Mr. Taylor.

In addition, we use our website as a channel of distribution for Company information. We make available free of charge on the Investor Relations section of our website (www.ngsgi.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. We also make available through our website other reports filed with or furnished to the SEC under the Securities Exchange Act of 1934, as amended, including our proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act, as well as our Code of Business Ethics and the charters to our various Committees of our Board of Directors. We do not intend for information contained in our website to be part of this proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

April 29, 2016
Midland, Texas

/s/ Stephen C. Taylor

Stephen C. Taylor
Chairman of the Board, President and Chief
Executive Officer

NATURAL GAS SERVICES GROUP, INC.
STOCK OPTION PLAN (as amended and restated)

1. **Purposes of this Plan.** The purposes of this Stock Option Plan, as amended and restated, are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants and to promote the success of the Company's business. Options granted hereunder may be either "incentive stock options," as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or "nonstatutory stock options," at the discretion of the Board and as reflected in the terms of the written stock option agreement.
2. **Definitions.** As used herein, the following definitions shall apply:
 - a. "Board" shall mean the Committee, if one has been appointed or the Board of Directors of the Company if no Committee is appointed.
 - b. "Code" shall mean the Internal Revenue Code of 1986, as amended.
 - c. "Common Stock" shall mean the \$0.01 par value common stock of the Company.
 - d. "Company" shall mean Natural Gas Services Group, Inc., a Colorado corporation.
 - e. "Committee" shall mean the Committee appointed by the Board in accordance with paragraph (a) of Section 4 of this Plan, if one is appointed, or the Board if no committee is appointed.
 - f. "Consultant" shall mean any person who is engaged by the Company or by any Parent or Subsidiary to render consulting services and is compensated for such consulting services, but does not include a director of the Company who is compensated for services as a director only with the payment of a director's fee by the Company.
 - g. "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Board, provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.
 - h. "Employee" shall mean any person, including officers and directors, employed by the Company or by any Parent or Subsidiary. The payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.
 - i. "Incentive Stock Option" shall mean an Option which is intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and which shall be clearly identified as such in the written Stock Option Agreement provided by the Company to each Optionee granted an Incentive Stock Option under this Plan.
 - j. "Non-Employee Director" shall mean a director who:
 - (i) Is not currently an officer (as defined in Section 16a-1(1) of the Securities Exchange Act of 1934, as amended) of the Company or of a Parent or Subsidiary or otherwise currently employed by the Company or by a Parent or Subsidiary.
 - (ii) Does not receive compensation, either directly or indirectly, from the Company or from a Parent or Subsidiary, for services rendered as a Consultant or in any capacity other than as a director, except for an amount that does not exceed the dollar amount for which disclosure would be required pursuant to Item 404(a) of Regulation S-K adopted by the United States Securities and Exchange Commission.
 - (iii) Does not possess an interest in any other transaction for which disclosure would be required pursuant to Item 404(a) of Regulation S-K adopted by the United States Securities and Exchange Commission.
 - k. "Nonstatutory Stock Option" shall mean an Option granted under this Plan which does not qualify as an Incentive Stock Option and which shall be clearly identified as such in the written Stock Option Agreement provided by the Company to each Optionee granted a Nonstatutory Stock Option under this Plan. To the extent that the aggregate fair market value of Optioned

Stock to which Incentive Stock Options granted under Options to an Employee are exercisable for the first time during any calendar year (under this Plan and all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options under this Plan. The aggregate fair market value of the Optioned Stock shall be determined as of the date of grant of each Option and the determination of which Incentive Stock Options shall be treated as qualified incentive stock options under Section 422 of the Code and which Incentive Stock Options exercisable for the first time in a particular year in excess of the \$100,000 limitation shall be treated as Nonstatutory Stock Options shall be determined based on the order in which such Options were granted in accordance with Section 422(d) of the Code.

l. “Option” shall mean an Incentive Stock Option, a Nonstatutory Stock Option or both as identified in a written Stock Option Agreement representing such stock option granted pursuant to this Plan.

m. “Optioned Stock” shall mean the Common Stock subject to an Option.

n. “Optionee” shall mean an Employee or other person who is granted an option.

o. “Parent” shall mean a “parent corporation” of the Company, whether now or hereafter existing, as defined in Section 424(e) of the Code.

p. “Plan” shall mean this Stock Option Plan, as restated.

q. “Share” shall mean a share of the Common Stock of the Company, as adjusted in accordance with Section 11 of this Plan.

r. “Stock Option Agreement” shall mean the agreement to be entered into between the Company and each Optionee which shall set forth the terms and conditions of each Option granted to each Optionee, including the number of Shares underlying such Option and the exercise price of each Option granted to such Optionee under such agreement.

s. “Subsidiary” shall mean a “subsidiary corporation” of the Company, whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. **Stock Subject to this Plan.** Subject to the provisions of Section 11 of this Plan, the maximum aggregate number of Shares which may be optioned and sold under this Plan is 1,000,000 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock. If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless this Plan shall have been terminated, become available for future grant under this Plan.

4. **Administration of this Plan.**

a. *Procedure.* This Plan shall be administered by the Board or a Committee appointed by the Board consisting of two or more Non-Employee Directors to administer this Plan on behalf of the Board, subject to such terms and conditions as the Board may prescribe.

(i) Once appointed, the Committee shall continue to serve until otherwise directed by the Board (which for purposes of this paragraph (a)(i) of this Section 4 shall be the Board of Directors of the Company). From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefore, fill vacancies however caused, or remove all members of the Committee and thereafter directly administer this Plan.

(ii) Members of the Board who are granted, or have been granted, Options may vote on any matters affecting the administration of this Plan or the grant of any Options pursuant to this Plan.

b. *Powers of the Board.* Subject to the provisions of this Plan, the Board shall have the authority, in its discretion:

(i) To grant Incentive Stock Options, in accordance with Section 422 of the Code, and Nonstatutory Stock Options or both as provided and identified in a separate written Stock Option Agreement to each Optionee granted such Option or Options under this Plan; provided however, that in no event shall an Incentive Stock Option and a Nonstatutory Stock Option granted to any Optionee under a single Stock Option Agreement be subject to a “tandem” exercise

arrangement such that the exercise of one such Option affects the Optionee's right to exercise the other Option granted under such Stock Option Agreement;

(ii) To determine, upon review of relevant information and in accordance with Section 8(b) of this Plan, the fair market value of the Common Stock;

(iii) To determine the exercise price per Share of Options to be granted, which exercise price shall be determined in accordance with Section 8(a) of this Plan;

(iv) To determine the Employees or other persons to whom, and the time or times at which, Options shall be granted and the number of Shares to be represented by each Option;

(v) To interpret this Plan;

(vi) To prescribe, amend and rescind rules and regulations relating to this Plan;

(vii) To determine the terms and provisions of each Option granted (which need not be identical) and, with the consent of the holder thereof, modify or amend each Option;

(viii) To accelerate or defer (with the consent of the Optionee) the exercise date of any Option, consistent with the provisions of Section 7 of this Plan;

(ix) To authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option previously granted by the Board; and

(x) To make all other determinations deemed necessary or advisable for the administration of this Plan.

c. *Effect of Board's Decision.* All decisions, determinations and interpretations of the Board shall be final and binding on all Optionees and any other permissible holders of any Options granted under this Plan.

5. Eligibility.

a. *Persons Eligible.* Options may be granted to any person selected by the Board. Incentive Stock Options may be granted only to Employees. An Employee, who is also a director of the Company, its Parent or a Subsidiary, shall be treated as an Employee for purposes of this Section 5. An Employee or other person who has been granted an Option may, if he is otherwise eligible, be granted an additional Option or Options.

b. *No Effect on Relationship.* This Plan shall not confer upon any Optionee any right with respect to continuation of employment or other relationship with the Company nor shall it interfere in any way with his right or the Company's right to terminate his employment or other relationship at any time.

6. **Term of Plan.** This Plan, as amended and restated, became effective on March 1, 2016. It shall continue in effect until February 28, 2026, unless sooner terminated under Section 13 of this Plan.

7. **Term of Option.** The term of each Option shall be 10 years from the date of grant, thereof, or such shorter term as may be provided in the Stock Option Agreement. However, in the case of an Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, if the Option is an Incentive Stock Option, the term of the Option shall be five years from the date of grant thereof or such shorter time as may be provided in the Stock Option Agreement.

8. Exercise Price and Consideration.

a. *Exercise Price.* The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Board, but the per Share exercise price under an Incentive Stock Option shall be subject to the following:

(i) If granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall not be less than 110% of the fair market value per Share on the date of grant.

(ii) If granted to any other Employee, the per Share exercise price shall not be less than 100% of the fair market value per Share on the date of grant.

b. *Determination of Fair Market Value.* The fair market value per Share on the date of grant shall be determined as follows:

(i) If the Common Stock is listed on the New York Stock Exchange, the American Stock Exchange or such other securities exchange designated by the Board, or admitted to unlisted trading privileges on any such exchange, or if the Common Stock is quoted on a National Association of Securities Dealers, Inc. system that reports closing prices, the fair market value shall be the closing price of the Common Stock as reported by such exchange or system on the day the fair market value is to be determined, or if no such price is reported for such day, then the determination of such closing price shall be as of the last immediately preceding day on which the closing price is so reported;

(ii) If the Common Stock is not so listed or admitted to unlisted trading privileges or so quoted, the fair market value shall be the average of the last reported highest bid and the lowest asked prices quoted on the National Association of Securities Dealers, Inc. Automated Quotations System or, if not so quoted, then by the National Quotation Bureau, Inc. on the day the fair market value is determined; or

(iii) If the Common Stock is not so listed or admitted to unlisted trading privileges or so quoted, and bid and asked prices are not reported, the fair market value shall be determined in such reasonable manner as may be prescribed by the Board.

c. *Consideration and Method of Payment.* The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Board and may consist entirely of cash, check, other shares of Common Stock having a fair market value on the date of exercise equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, or any combination of such methods of payment, or such other consideration and method of payment for the issuance of Shares to the extent permitted under the Colorado Business Corporation Act.

9. **Exercise of Option.**

a. *Procedure for Exercise: Rights as a Shareholder.* Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Board, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of this Plan.

An Option may not be exercised for a fraction of a Share.

An option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Stock Option Agreement by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment, as authorized by the Board, may consist of a consideration and method of payment allowable under Section 8(c) and this Section 9(a) of this Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of the duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of this Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of this Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

b. *Termination of Status as an Employee.* In the case of an Incentive Stock Option, if any Employee ceases to serve as an Employee, he may, but only within such period of time not exceeding three months as is determined by the Board at the time of grant of the Option after the date he ceases to be an Employee of the Company, exercise his Option to the extent that he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise the Option at the date of such termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

c. *Disability of Optionee.* In the case of an Incentive Stock Option, notwithstanding the provisions of Section 9 (b) above, in the event an Employee is unable to continue his employment with the Company as a result of his total and permanent

disability (as defined in Section 22(e)(3) of the Code), he may, but only within such period of time not exceeding 12 months as is determined by the Board at the time of grant of the Option from the date of termination, exercise his Option to the extent he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise the Option at the date of termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

d. *Death of Optionee.* In the case of an Incentive Stock Option, in the event of the death of the Optionee:

(i) During the term of the Option if the Optionee was at the time of his death an Employee and had been in Continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within 12 months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the right to exercise would have accrued had the Optionee continued living and remained in Continuous Status as an Employee 12 months after the date of death; or

(ii) Within such period of time not exceeding three months as is determined by the Board at the time of grant of the Option after the termination of Continuous Status as an Employee, the Option may be exercised, at any time within 12 months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the right to exercise had accrued at the date of termination.

10. **Nontransferability of Options.** Unless permitted by the Code, in the case of an Incentive Stock Option, the Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent and distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. **Adjustments Upon Changes in Capitalization or Merger.** Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Option, and the number of Shares which have been authorized for issuance under this Plan but as to which no Options have yet been granted or which have been returned to this Plan upon cancellation or expiration of any Option, as well as the price per Share covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

In the event of the proposed dissolution or liquidation of the Company, the Option will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. The Board may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. In the event of the proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another entity in a transaction in which the Company is not the survivor, the Option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the Optionee shall have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. If the Board makes an Option fully exercisable in lieu of assumption or substitution in the event of such a merger or sale of assets, the Board shall notify the Optionee that the Option shall be fully exercisable for a period of 30 days from the date of such notice, and the Option will terminate upon the expiration of such period.

12. **Time of Granting Options.** The date of grant of an Option shall, for all purposes, be the date on which the Board makes the determination granting such Option. Notice of the determination shall be given to each Employee or other person to whom an Option is so granted within a reasonable time after the date of such grant. Within a reasonable time after the date of the grant of an Option, the Company shall enter into and deliver to each Employee or other person granted such Option a written Stock Option Agreement as provided in Sections 2(r) and 16 hereof, setting forth the terms and conditions of such Option and separately identifying the portion of the Option which is an Incentive Stock Option and/or the portion of such Option which is a Nonstatutory Stock Option.

13. **Amendment and Termination of this Plan.**

a. *Amendment and Termination.* The Board may amend or terminate this Plan from time to time in such respects as the Board may deem advisable; provided that, the following revisions or amendments shall require approval of the shareholders of the Company in the manner described in Section 17 of this Plan:

(i) Any change in the designation of the class of Employees eligible to be granted Incentive Stock Options;
or

(ii) Any material amendment under this Plan that would have to be approved by the shareholders of the Company for the Board to continue to be able to grant Incentive Stock Options under this Plan.

b. *Effect of Amendment or Termination.* Any such amendment or termination of this Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

14. **Conditions Upon Issuance of Shares.** Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, applicable state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of legal counsel for the Company with respect to such compliance.

As a condition to the existence of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares and such other representations and warranties which in the opinion of legal counsel for the Company, are necessary or appropriate to establish an exemption from the registration requirements under applicable federal and state securities laws with respect to the acquisition of such Shares.

15. **Reservation of Shares.** The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of this Plan. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's legal counsel to be necessary for the lawful issuance and sale of any Share hereunder, shall relieve the Company of any liability relating to the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

16. **Stock Option Agreement.** Each Option granted to an Employee or other persons shall be evidenced by a written Stock Option Agreement in such form as the Board shall approve.

17. **Shareholder Approval.** Any restatement or amendment of this Plan shall be subject to approval by the shareholders of the Company if and when required by law or regulations of the New York Stock Exchange (or such other stock exchange or quotation system that shares of the Company's common stock may be traded or listed upon at the time.)

18. **Information to Optionees.** The Company shall provide to each Optionee, during the period for which such Optionee has one or more Options outstanding, copies of all annual reports and other information which are provided to all shareholders of the Company. The Company shall not be required to provide such information if the issuance of Options under this Plan is limited to key employees whose duties in connection with the Company assure their access to equivalent information.

19. **Gender.** As used herein, the masculine, feminine and neuter genders shall be deemed to include the others in all cases where they would so apply.

20. **Section 409A.** Notwithstanding anything in this Plan to the contrary, the Plan and Options granted under the Plan are intended to be stock rights that do not provide for the deferral of compensation under Section 409A of the Code. The Plan shall be interpreted to the fullest extent possible and shall be operated so as to comply with the requirements imposed by Section 409A of the Code such that Options do not provide for the deferral of compensation. If any Plan provision or Option would result in the imposition of any additional tax or interest under Section 409A of the Code, the Company and the participant intend that the Plan provision or Option will be reformed to avoid imposition, to the extent possible, of such additional tax and interest, and no

action taken by the Company to so comply with Section 409A of the Code shall be deemed to adversely affect the participant's rights to an Option.

21. **CHOICE OF LAW.** ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY AND INTERPRETATION OF THIS PLAN AND THE INSTRUMENTS EVIDENCING OPTIONS WILL BE GOVERNED BY THE INTERNAL LAW, AND NOT THE LAW OF CONFLICTS, OF THE STATE OF COLORADO.

Stephen C. Taylor, Chairman of the Board,
President and Chief Executive Officer

**BYLAWS
OF
NATURAL GAS SERVICES GROUP, INC.**
(As amended by the Board on April 27, 2016, subject to shareholder approval)

ARTICLE 1

Offices.

The principal office of the corporation shall be designated from time to time by the corporation and may be within or outside of Colorado.

The corporation may have such other offices, either within or outside Colorado, as the board of directors may designate or as the business of the corporation may require from time to time.

The registered office of the corporation required by the Colorado Business Corporation Act to be maintained in Colorado may be, but need not be, identical with the principal office, and the address of the registered office may be changed from time to time by the board of directors.

ARTICLE II

Shareholders

Section 1. Annual Meeting. The annual meeting of the shareholders shall be held each year on a date and at a time fixed by the board of directors of the corporation (or by the chairman of the board or the president in the absence of action by the board of directors), for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the election of directors is not held on the day fixed as provided herein for any annual meeting of the shareholders, or any adjournment thereof, the board of directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as it may conveniently be held. If a shareholder intends to bring up items of business or nominate directors at any annual meeting, written notice of such intent must be received at the corporation's principal executive offices not less than the number of days that is required from time to time under federal securities laws with respect to companies registered under the Securities Exchange Act of 1934.

A shareholder may apply to the district court in the county in Colorado where the corporation's principal office is located or, if the corporation has no principal office in Colorado, to the district court of the county in which the corporation's registered office is located to seek an order that a shareholder meeting be held (i) if an annual meeting was not held within six months after the close of the corporation's most recently ended fiscal year or fifteen months after its last annual meeting, whichever is earlier, or (ii) if the shareholder participated in a proper call of or proper demand for a special meeting and notice of the special meeting was not given within thirty days after the date of the call or the date the last of the demands necessary to require calling of the meeting was received by the corporation, or the special meeting was not held in accordance with the notice.

Section 2. Special Meetings. Unless otherwise prescribed by statute, special meetings of the shareholders may be called for any purpose by the chairman of the board, by the president, by the

secretary, by any one director or by the board of directors of the corporation. The president shall call a special meeting of the shareholders if the corporation receives one or more written demands for the meeting, stating the purpose or purposes for which it is to be held, signed and dated by holders of shares representing at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting.

Section 3. Place of Meeting. The board of directors may designate any place, either within or outside Colorado, as the place for any annual meeting or any special meeting called by the board of directors. A waiver of notice signed by all shareholders entitled to vote at a meeting may designate any place, either within or outside Colorado, as the place for such meeting. If no designation is made, or if a special meeting is called other than by the board of directors, the place of meeting shall be the principal office of the corporation.

Section 4. Notice of Meeting. Written notice stating the place, date, and time of the meeting shall be given not less than ten nor more than sixty days before the date of the meeting, except that (i) if the number of authorized shares is to be increased, at least thirty days' notice shall be given, or (ii) any other longer notice period shall be given if required by the Colorado Business Corporation Act. Notice of a special meeting shall include a description of the purpose or purposes of the meeting and the business conducted at a special meeting shall be limited to such purpose or purposes. Notice of an annual meeting need not include a description of the purpose or purposes of the meeting except the purpose or purposes shall be stated with respect to (i) an amendment to the articles of incorporation of the corporation, (ii) a merger or share exchange in which the corporation is a party and, with respect to a share exchange, in which the corporation's shares will be acquired, (iii) a sale, lease, exchange or other disposition, other than in the usual and regular course of business, of all or substantially all of the property of the corporation or of another entity which this corporation controls, in each case with or without the goodwill, (iv) a dissolution of the corporation, or (v) any other purpose for which a statement of purpose is required by the Colorado Business Corporation Act. Notice shall be given personally or by mail, private carrier, telegraph, teletype, electronically transmitted facsimile or other form of wire or wireless communication by or at the direction of the chief executive officer, the president, the secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed and if in a comprehensible form, such notice shall be deemed to be given and effective when deposited in the United States mail, addressed to the shareholder at his address as it appears in the corporation's current record of shareholders, with postage prepaid. If notice is given other than by mail, and provided that such notice is in a comprehensible form, the notice is given and effective on the date received by the shareholder.

If requested by the person or persons lawfully calling such meeting, the secretary shall give notice thereof at corporate expense. No notice need be sent to any shareholder if three successive notices mailed to the last known address of such shareholder have been returned as undeliverable until such time as another address for such shareholder is made known to the corporation by such shareholder. In order to be entitled to receive notice of any meeting, a shareholder shall advise the corporation in writing of any change in such shareholder's mailing address as shown on the corporation's books and records.

When a meeting is adjourned to another date, time or place, notice need not be given of the new date, time or place if the new date, time or place of such meeting is announced before adjournment

at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which may have been transacted at the original meeting. If the adjournment is for more than 120 days, or if a new record date is fixed for the adjourned meeting, a new notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting as of the new record date.

A shareholder may waive notice of a meeting before or after the time and date of the meeting by a writing signed by such shareholder. Such waiver shall be delivered to the corporation for filing with the corporate records. Further, by attending a meeting either in person or by proxy, a shareholder waives objection to lack of notice or defective notice of the meeting unless the shareholder objects at the beginning of the meeting to the holding of the meeting or the transaction of business at the meeting because of lack of notice or defective notice. By attending the meeting, the shareholder also waives any objection to consideration at the meeting of a particular matter not within the purpose or purposes described in the meeting notice unless the shareholder objects to considering the matter when it is presented.

Section 5. Fixing of Record Date. For the purpose of determining shareholders entitled to (i) notice of or vote at any meeting of shareholders or any adjournment thereof, (ii) receive distributions or share dividends, or (iii) demand a special meeting, or to make a determination of shareholders for any other proper purpose, the board of directors may fix a future date as the record date for any such determination of shareholders, such date in any case to be not more than seventy days, and, in case of a meeting of shareholders, not less than ten days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed by the board of directors, the record date shall be the date on which notice of the meeting is mailed to shareholders, or the date on which the resolution of the board of directors providing for a distribution is adopted, as the case may be. When a determination of shareholders entitled to vote at any meeting of shareholders is made as provided in this Section, such determination shall apply to any adjournment thereof unless the board of directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

Notwithstanding the above, the record date for determining the shareholders entitled to take action without a meeting or entitled to be given notice of action so taken shall be the date the corporation first receives a writing upon which the action is taken. The record date for determining shareholders entitled to demand a special meeting shall be the date of the earliest of any of the demands pursuant to which the meeting is called.

Section 6. Voting Lists. The secretary shall make, at the earlier of ten days before each meeting of shareholders or two business days after notice of the meeting has been given, a complete list of the shareholders entitled to be given notice of such meeting or any adjournment thereof. The list shall be arranged by voting groups and within each voting group by class or series of shares, shall be in alphabetical order within each class or series, and shall show the address of and the number of shares of each class or series held by each shareholder. For the period beginning the earlier of ten days prior to the meeting or two business days after notice of the meeting is given and continuing through the meeting and any adjournment thereof, this list shall be kept on file at the principal office of the corporation, or at a place (which shall be identified in the notice) in the city where the meeting

will be held. Such list shall be available for inspection on written demand by any shareholder (including for the purpose of this Section 6 any holder of voting trust certificates) or his agent or attorney during regular business hours and during the period available for inspection. The original stock transfer books shall be prima facie evidence as to the shareholders entitled to examine such list or to vote at any meeting of shareholders.

Any shareholder, his agent or attorney may copy the list during regular business hours and during the period it is available for inspection, provided (i) the shareholder has been a shareholder for at least three months immediately preceding the demand or holds at least five percent of all outstanding shares of any class of shares as of the date of the demand, (ii) the demand is made in good faith and for a purpose reasonably related to the demanding shareholder's interest as a shareholder, (iii) the shareholder describes with reasonable particularity the purpose and the records the shareholder desires to inspect, (iv) the records are directly connected with the described purpose, and (v) the shareholder pays a reasonable charge covering the costs of labor and material for such copies, not to exceed the estimated cost of production and reproduction.

Section 7. Recognition Procedure for Beneficial Owners. The board of directors may adopt by resolution a procedure whereby a shareholder of the corporation may certify in writing to the corporation that all or a portion of the shares registered in the name of such shareholder are held for the account of a specified person or persons. The resolution may set forth (i) the types of nominees to which it applies, (ii) the rights or privileges that the corporation will recognize in a beneficial owner, which may include rights and privileges other than voting, (iii) the form of certification and the information to be contained therein, (iv) if the certification is with respect to a record date, the time within which the certification must be received by the corporation, (v) the period for which the nominee's use of the procedure is effective, and (vi) such other provisions with respect to the procedure as the board of directors deems necessary or desirable. Upon receipt by the corporation of a certificate complying with the procedure established by the board of directors, the persons specified in the certification shall be deemed, for the purpose or purposes set forth in the certification, to be the registered holders of the number of shares specified in place of the shareholder making the certification.

Section 8. Quorum and Manner of Acting. A majority of the votes entitled to be cast on a matter by a voting group shall constitute a quorum of that voting group for action on the matter. If less than a majority of such votes are represented at a meeting, a majority of the votes so represented may adjourn the meeting from time to time without further notice, for a period not to exceed 120 days for any one adjournment. If a quorum is present at such adjourned meeting, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, unless the meeting is adjourned and a new record date is set for the adjourned meeting.

If a quorum exists, except as required by law or except as provided in the Articles of Incorporation, except as provided in Section 2 of Article III and except as provided in Section 3 of Article VIII, action on a matter other than the election of directors by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action.

Section 9. Proxies. At all meetings of shareholders, a shareholder may vote by proxy by signing an appointment form or similar writing, either personally or by his duly authorized attorney-in-fact. A shareholder may also appoint a proxy by transmitting or authorizing the transmission of a telegram, teletype, or other electronic transmission providing a written statement of the appointment to the proxy, a proxy solicitor, proxy support service organization, or other person duly authorized by the proxy to receive appointments as agent for the proxy, or to the corporation. The transmitted appointment shall set forth or be transmitted with written evidence from which it can be determined that the shareholder transmitted or authorized the transmission of the appointment. The proxy appointment form or similar writing shall be filed with the secretary of the corporation before or at the time of the meeting. The appointment of a proxy is effective when received by the corporation and is valid for eleven months unless a different period is expressly provided in the appointment form or similar writing.

Any complete copy, including an electronically transmitted facsimile, of an appointment of a proxy may be substituted for or used in lieu of the original appointment for any purpose for which the original appointment could be used.

Revocation of a proxy does not affect the right of the corporation to accept the proxy's authority unless (i) the corporation had notice that the appointment was coupled with an interest and notice that such interest is extinguished is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment, or (ii) other notice of the revocation of the appointment is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment. Other notice of revocation may, in the discretion of the corporation, be deemed to include the appearance at a shareholders' meeting of the shareholder who granted the proxy and his voting in person on any matter subject to a vote at such meeting.

The death or incapacity of the shareholder appointing a proxy does not affect the right of the corporation to accept the proxy's authority unless notice of the death or incapacity is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment.

The corporation shall not be required to recognize an appointment made irrevocable if it has received a writing revoking the appointment signed by the shareholder (including a shareholder who is a successor to the shareholder who granted the proxy) either personally or by his attorney-in-fact, notwithstanding that the revocation may be a breach of an obligation of the shareholder to another person not to revoke the appointment.

Subject to Section 11 of Article II and any express limitation on the proxy's authority appearing on the appointment form, the corporation is entitled to accept the proxy's vote or other action as that of the shareholder making the appointment.

Section 10. Voting of Shares. Each outstanding share, regardless of class shall be entitled to one vote, except in the election of directors, and each fractional share shall be entitled to a corresponding fractional vote on each matter submitted to a vote at a meeting of shareholders, except to the extent that the voting rights of the shares of any class or classes are limited or denied by the articles of incorporation as permitted by the Colorado Business Corporation Act. Cumulative voting shall not be permitted in the election of directors or for any other purpose.

Each record holder of stock shall be entitled to vote in the election of directors and shall have as many votes for each of the shares owned by him as there are directors to be elected and for whose election he has the right to vote. Except as provided in Section 4 of Article III, each director shall be elected by the vote of the majority of the votes cast with respect to the director at any meeting for the election of directors at which a quorum is present; provided that if the number of director nominees exceeds the number of directors to be elected, the directors shall be elected by the vote of a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. For purposes of this section, a majority of the votes cast means that the number of shares voted "for" a director must exceed the number of votes cast "against" with respect to that director (with abstentions and broker non-votes not counted as either a vote "for" or "against" the nominee's election. In the event a director fails to receive an affirmative majority of the votes cast in an election where the number of nominees is less than or equal to the number of directors to be elected, the Board of Directors, within its powers, may decrease the number of directors, fill the vacancy, or take other appropriate action.

Except as otherwise ordered by a court of competent jurisdiction upon a finding that the purpose of this Section would not be violated in the circumstances presented to the court, the shares of the corporation are not entitled to be voted if they are owned, directly or indirectly, by a second corporation, domestic or foreign, and the first corporation owns, directly or indirectly, a majority of the shares entitled to vote for directors of the second corporation except to the extent the second corporation holds the shares in a fiduciary capacity.

Redeemable shares are not entitled to be voted after notice of redemption is mailed to the holders and a sum sufficient to redeem the shares has been deposited with a bank, trust company or other financial institution under an irrevocable obligation to pay the holders the redemption price on surrender of the shares.

Section 11. Corporation's Acceptance of Votes. If the name signed on a vote, consent, waiver, proxy appointment, or proxy appointment revocation corresponds to the name of a shareholder, the corporation, if acting in good faith, is entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and give it effect as the act of the shareholder. If the name signed on a vote, consent, waiver, proxy appointment or proxy appointment revocation does not correspond to the name of a shareholder, the corporation, if acting in good faith, is nevertheless entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and to give it effect as the act of the shareholder if:

(i) the shareholder is an entity and the name signed purports to be that of an officer or agent of the entity;

(ii) the name signed purports to be that of an administrator, executor, guardian or conservator representing the shareholder and, if the corporation requests, evidence of fiduciary status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;

(iii) the name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;

(iv) the name signed purports to be that of a pledgee, beneficial owner or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;

(v) two or more persons are the shareholder as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-tenants or fiduciaries, and the person signing appears to be acting on behalf of all the co-tenants or fiduciaries; or

(vi) the acceptance of the vote, consent, waiver, proxy appointment or proxy appointment revocation is otherwise proper under rules established by the corporation that are not inconsistent with this Section 11.

The corporation is entitled to reject a vote, consent, waiver, proxy appointment or proxy appointment revocation if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

Neither the corporation nor its officers nor any agent who accepts or rejects a vote, consent, waiver, proxy appointment or proxy appointment revocation in good faith and in accordance with the standards of this Section is liable in damages for the consequences of the acceptance or rejection.

Section 12. Meetings by Telecommunication. Any or all of the shareholders may participate in an annual or special shareholders' meeting by, or the meeting may be conducted through the use of, any means of communication by which all persons participating in the meeting may hear each other during the meeting. A shareholder participating in a meeting by this means is deemed to be present in person at the meeting.

ARTICLE III

Board of Directors

Section 1. General Powers. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under, the direction of its board of directors, except as otherwise provided in the Colorado Business Corporation Act or the articles of incorporation.

Section 2. Number, Qualifications and Tenure. The business and affairs of the corporation shall be managed or be under the direction of the Board of Directors; and, subject to any restrictions imposed by law, by the Articles of Incorporation, or by these Bylaws, the Board of Directors may exercise all the powers of the corporation. The Board of Directors shall consist of three (3) members, unless otherwise determined from time to time by resolution adopted by at least 80% of the votes entitled to be cast by each voting group entitled to vote thereon, or by unanimous consent of the Board of Directors. No decrease shall affect the shortening of the term of any incumbent director. Directors need not be residents of Colorado or shareholders of the corporation absent provision to the contrary in the Articles of Incorporation or laws of the State of Colorado.

Section 3. Removal of Directors. Any director or the entire Board of Directors may be removed from office, at any time, but only for cause, at any special meeting of shareholders by the affirmative

vote of at least 80% of the votes entitled to be cast by each voting group entitled to vote thereon at such meeting, if notice of the intention to act upon such matter shall have been given in the notice calling such meeting. If the notice calling such meeting shall have so provided, the vacancy caused by such removal may be filled at such meeting by the affirmative vote of at least 80% of the shares of the votes entitled to be cast by each voting group entitled to vote thereon.

Section 4. Vacancies. Any director may resign at any time by giving written notice to the corporation. Such resignation shall take effect at the time the notice is received by the corporation unless the notice specifies a later effective date. Unless otherwise specified in the notice of resignation, the corporation's acceptance of such resignation shall not be necessary to make it effective. Any vacancy on the board of directors may be filled by the affirmative vote of a majority of the shareholders or the board of directors. If the directors remaining in office constitute fewer than a quorum of the board of directors, the directors may fill the vacancy by the affirmative vote of a majority of all the directors remaining in office. If elected by the directors, the director shall hold office until the next annual shareholders' meeting at which directors are elected. If elected by the shareholders, the director shall hold office for the unexpired term of his predecessor in office; except that, if the directors' predecessor was elected by the directors to fill a vacancy, the director elected by the shareholders shall hold office for the unexpired term of the last predecessor elected by the shareholders.

Section 5. Regular Meetings. A regular meeting of the board of directors shall be held without notice immediately after and at the same place as the annual meeting of shareholders. The board of directors may provide by resolution the time and place, either within or outside Colorado, for the holding of additional regular meetings without other notice.

Section 6. Special Meetings. Special meetings of the board of directors may be called by or at the request of the chairman of the board, the president or any two directors. The person or persons authorized to call special meetings of the board of directors may fix any place, either within or outside Colorado, as the place for holding any special meeting of the board of directors called by them.

Section 7. Notice. Notice of any special meeting shall be given at least two days prior to the meeting by written notice either personally delivered or mailed to each director at his business address, or by notice transmitted by telegraph, telex, electronically transmitted facsimile or other form of wire or wireless communication. If mailed, such notice shall be deemed to be given and to be effective on the earlier of (i) three days after such notice is deposited in the United States mail, properly addressed, with postage prepaid, or (ii) the date shown on the return receipt, if mailed by registered or certified mail return receipt requested. If notice is given by telex, electronically transmitted facsimile or other similar form of wire or wireless communication, such notice shall be deemed to be given and to be effective when sent and with respect to a telegram, such notice shall be deemed to be given and to be effective when the telegram is delivered to the telegraph company. If a director has designated in writing one or more reasonable addresses or facsimile numbers for delivery of notice to him, notice sent by mail, telegraph, telex, electronically transmitted facsimile or other form of wire or wireless communication shall not be deemed to have been given or to be effective unless sent to such addresses or facsimile numbers, as the case may be.

A director may waive notice of a meeting before or after the time and date of the meeting by a writing signed by such director. Such waiver shall be delivered to the corporation for filing with the corporate records. Further, a director's attendance at or participation in a meeting waives any required notice to him of the meeting unless at the beginning of the meeting, or promptly upon his later arrival, the director objects to holding the meeting or transacting business at the meeting because of lack of notice or defective notice and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Section 8. Quorum. A majority of the number of directors fixed pursuant to Section 2 of this Article III shall constitute a quorum for the transaction of business at any meeting of the board of directors.

If less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, for a period not to exceed sixty days at any one adjournment.

Section 9. Manner of Acting. Unless otherwise specified herein, the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

Section 10. Compensation. By resolution of the board of directors, any director may be paid any one or more of the following: his expenses, if any, of attendance at meetings, a fixed sum for attendance at each meeting, a stated salary as director, or such other compensation as the board of directors and the director may reasonably agree upon. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 11. Presumption of Assent. A director of the corporation who is present at a meeting of the board of directors or committee of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (i) the director objects at the beginning of the meeting, or promptly upon his later arrival, to the holding of the meeting or the transaction of business at the meeting and does not thereafter vote for or assent to any action taken at the meeting, (ii) the director contemporaneously requests that his dissent or abstention as to any specific action taken be entered in the minutes of the meeting, or (iii) the director causes written notice of his dissent or abstention as to any specific action to be received by the presiding officer of the meeting before its adjournment or by the corporation promptly after the adjournment of the meeting. A director may dissent to a specific action at a meeting, while assenting to others. The right to dissent to a specific action taken at a meeting of the board of directors or a committee of the board of directors shall not be available to a director who voted in favor of such action.

Section 12. Committees. By resolution adopted by a majority of all the directors in office when the action is taken, the board of directors may designate from among its members an executive committee and one or more other committees, and appoint one or more members of the board of directors to serve on them. To the extent provided in the resolution, each committee shall have all the authority of the board of directors, except that no such committee shall have the authority to (i) authorize distributions, (ii) approve or propose to shareholders actions or proposals required by the Colorado Business Corporation Act to be approved by shareholders, (iii) fill vacancies on the board of directors or any committee thereof, (iv) amend articles of incorporation, (v) adopt, amend or repeal the bylaws, (vi) approve a plan of merger not requiring shareholder approval, (vii) authorize

or approve the reacquisition of shares unless pursuant to a formula or method prescribed by the board of directors, or (viii) authorize or approve the issuance or sale of shares, or contract for the sale of shares or determine the designations and relative rights, preferences and limitations of a class or series of shares, except that the board of directors may authorize a committee or officer to do so within limits specifically prescribed by the board of directors. The committee shall then have full power within the limits set by the board of directors to adopt any final resolution setting forth all preferences, limitations and relative rights of such class or series and to authorize an amendment of the articles of incorporation stating the preferences, limitations and relative rights of a class or series for filing with the Secretary of State under the Colorado Business Corporation Act.

Sections 5, 6, 7, 8 and 13 of Article III, which govern meetings, notice, waiver of notice, quorum, voting requirements and action without a meeting of the board of directors, shall apply to committees and their members appointed under this Section 12.

Neither the designation of any such committee, the delegation of authority to such committee, nor any action by such committee pursuant to its authority shall alone constitute compliance by any member of the board of directors or a member of the committee in question with his responsibility to conform to the standard of care set forth in Article III Section 15 of these bylaws.

Section 13. Informal Action by Directors. Any action required or permitted to be taken at a meeting of the directors or any committee designated by the board of directors may be taken without a meeting if a written consent (or counterparts thereof) that sets forth the action so taken is signed by all of the directors or committee members entitled to vote with respect to the action taken. Such consent shall have the same force and effect as a unanimous vote of the directors or committee members and may be stated as such in any document. Unless the consent specifies a different effective date, action taken under this Section 13 is effective at the time the last director signs a writing describing the action taken, unless, before such time, any director has revoked his consent by a writing signed by the director and received by the president or the secretary of the corporation.

Section 14. Telephonic Meetings. The board of directors may permit any director (or any member of a committee designated by the board of directors) to participate in a regular or special meeting of the board of directors or a committee thereof through the use of any means of communication by which all directors participating in the meeting can hear each other during the meeting. A director participating in a meeting in this manner is deemed to be present in person at the meeting.

Section 15. Standard of Care. A director shall perform his duties as a director, including without limitation his duties as a member of any committee of the board of directors, in good faith, in a manner he reasonably believes to be in the best interests of the corporation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. In performing his duties, a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by the persons herein designated. However, he shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause such reliance to be unwarranted. A director shall not be liable to the corporation or its shareholders for any action he takes or omits to take as a director if, in connection with such action or omission, he performs his duties in compliance with this Section 15.

The designated persons on whom a director is entitled to rely are (i) one or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented, (ii) legal counsel, public accountant, or other person as to matters which the director reasonably believes to be within such person's professional or expert competence, or (iii) a committee of the board of directors on which the director does not serve if the director reasonably believes the committee merits confidence.

ARTICLE IV

Officers and Agents

Section 1. General. The officers of the corporation shall be a chief executive officer, a president, a secretary and a treasurer, each of whom shall be a natural person eighteen years of age or older. The board of directors or an officer or officers authorized by the board of directors may appoint such other officers, assistant officers, committees and agents, assistant secretaries and assistant treasurers, as they may consider necessary. The board of directors or the officer or officers authorized by the board of directors shall from time to time determine the procedure for the appointment of officers, their term of office, their authority and duties and their compensation. One person may hold more than one office. In all cases where the duties of any officer, agent or employee are not prescribed by the bylaws or by the board of directors, such officer, agent or employee shall follow the orders and instructions of the president of the corporation.

Section 2. Appointment and Term of Office. The officers of the corporation shall be appointed by the board of directors at each annual meeting of the board of directors held after each annual meeting of the shareholders. If the appointment of officers is not made at such meeting or if an officer or officers are to be appointed by another officer or officers of the corporation, such appointments shall be made as soon thereafter as conveniently possible. Each officer shall hold office until the first of the following occurs: his successor shall have been duly appointed and qualified, his death, his resignation, or his removal in the manner provided in Article IV, Section 3.

Section 3. Resignation and Removal. An officer may resign at any time by giving written notice of resignation to the corporation. The resignation is effective when the notice is received by the corporation unless the notice specifies a later effective date.

Any officer or agent may be removed at any time with or without cause by the board of directors or an officer or officers authorized by the board of directors or by the shareholders. Such removal does not affect the contract rights, if any, of the corporation or of the person so removed. The appointment of an officer or agent shall not in itself create contract rights.

Section 4. Vacancies. A vacancy in any office, however occurring, may be filled by the board of directors, or by the officer or officers authorized by the board of directors, for the unexpired portion of the officer's term. If an officer resigns and his resignation is made effective at a later date, the board of directors, or officer or officers authorized by the board of directors, may permit the officer to remain in office until the effective date and may fill the pending vacancy before the effective date if the board of directors or officer or officers authorized by the board of directors provide that the successor shall not take office until the effective date. In the alternative, the board of directors, or officer or officers authorized by the board of directors, may remove the officer at any time before the effective date and may fill the resulting vacancy.

Section 5. Chairman of the Board. The chairman of the board of directors, if appointed and if available, or if not appointed or not available, the chief executive officer, or if not appointed or not available, the president, shall preside at all meetings of the stockholders and of the board of directors.

Section 6. Chief Executive Officer. The chief executive officer shall be subject to the control of the board of directors, and shall in general supervise and control all business and affairs of the corporation. The chief executive officer may sign, with the secretary or any other proper officer of the corporation thereunto authorized by the board of directors, certificates for shares of the corporation, deeds, mortgages, bonds, contracts, and other obligations in the name of the corporation, which the board of directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors or by these bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed and executed; and in general shall perform all duties incident to the office of chief executive officer and such other duties as may be prescribed by the board of directors from time to time.

Section 7. President. The president shall assist the chairman of the board and the chief executive officer and shall perform such duties as may be assigned to him by the chairman of the board, the chief executive officer or by the board of directors.

Section 8. Chief Operating Officer. The chief operating officer, if appointed, shall be in charge of the actual day-to-day operations of the business of the corporation.

Section 9. Vice Presidents. If appointed, the vice presidents shall assist the chairman of the board, the chief executive officer and the president and shall perform such duties as may be assigned to them by the chairman of the board, the chief executive officer and the president or by the board of directors. In the absence of the chairman of the board, the chief executive officer and the president, the vice president, if any (or, if more than one, the vice presidents in the order designated by the board of directors, or if the board of directors makes no such designation, then the vice president designated by the chairman of the board, the chief executive officer or by the president, or if neither the board of directors, the chairman of the board, the chief executive officer nor the president makes any such designation, the senior vice president as determined by first election to that office), shall have the powers and perform the duties of the chairman of the board, the chief executive officer and the president.

Section 10. Secretary. The secretary shall (i) prepare and maintain as permanent records the minutes of the proceedings of the shareholders and the board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation, and a record of all waivers of notice of meetings of shareholders and of the board of directors or any committee thereof, (ii) see that all notices are duly given in accordance with the provisions of these bylaws and as required by law, (iii) serve as custodian of the corporate records and of the seal of the corporation and affix (the seal to all documents when authorized by the board of directors, (iv) keep at the corporation's registered office or principal place of business a record containing the names and addresses of all shareholders in a form that permits preparation of a list of shareholders arranged by voting group and by class or series of shares within each voting group, that is alphabetical within each class or series and that shows the address of, and the number of shares of each class or series held by, each shareholder, unless such a record shall be kept at the office of the corporation's

transfer agent or registrar, (v) maintain at the corporation's principal office the originals or copies of the corporation's articles of incorporation, bylaws, minutes of all shareholders' meetings and records of all action taken by shareholders without a meeting for the past three years, all written communications within the past three years to shareholders as a group or to the holders of any class or series of shares as a group, a list of the names and business addresses of the current directors and officers, a copy of the corporation's most recent corporate report filed with the Secretary of State, and financial statements showing in reasonable detail the corporation's assets and liabilities and results of operations for the last three years, (vi) have general charge of the stock transfer books of the corporation, unless the corporation has a transfer agent, (vii) authenticate records of the corporation, and (viii) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the chief executive officer, the president or by the board of directors. Assistant secretaries, if any, shall have the same duties and powers as the secretary, subject to supervision by the secretary. The directors and/or shareholders may however respectively designate a person other than the secretary or assistant secretary to keep the minutes of their respective meetings.

Any books, records, or minutes of the corporation may be in written form or in any form capable of being converted into written form within a reasonable time.

Section 11. Treasurer. The treasurer shall be the principal financial officer of the corporation, shall have the care and custody of all funds, securities, evidences of indebtedness and other personal property of the corporation and shall deposit the same in accordance with the instructions of the board of directors. He shall receive and give receipts and acquittances for money paid in on account of the corporation, and shall pay out of the corporation's funds on hand all bills, payrolls and other just debts of the corporation of whatever nature upon maturity. He shall perform all other duties incident to the office of the treasurer and, upon request of the board of directors, shall make such reports to it as may be required at any time. He shall, if required by the board of directors, give the corporation a bond in such sums and with such sureties as shall be satisfactory to the board of directors, conditioned upon the faithful performance of his duties and for the restoration to the corporation of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation. He shall have such other powers and perform such other duties, as may from time to time be prescribed by the board of directors, the chief executive officer or the president. The assistant treasurers, if any, shall have the same powers and duties as the treasurer, subject to the supervision of the treasurer.

The treasurer shall also be the principal accounting officer of the corporation. He shall prescribe and maintain the methods and systems of accounting to be followed, keep complete books and records of account as required by the Colorado Business Corporation Act, prepare and file all local, state and federal tax returns, prescribe and maintain an adequate system of internal audit and prepare and furnish to the chief executive officer, the president and the board of directors statements of account showing the financial position of the corporation and the results of its operations.

ARTICLE V

Stock

Section 1. Certificates. The board of directors shall be authorized to issue any of its classes of shares with or without certificates, provided that the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of the corporation's stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by a certificate or certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate or certificates representing the number of shares of stock owned by him in the corporation registered in certificate form. If the shares are represented by certificates, such shares shall be represented by consecutively numbered certificates signed, either manually or by facsimile, in the name of the corporation by the chief executive officer or the president and by the secretary or by one or more other persons designated by the board of directors. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nonetheless be issued by the corporation with the same effect as if he were such officer at the date of its issue. Certificates of stock shall be in such form and shall contain such information consistent with the law as shall be prescribed by the board of directors. If shares are not represented by certificates, within a reasonable time following the issue or transfer of such shares, the corporation shall send the shareholder a complete written statement of all of the information required to be provided to holders of uncertificated shares by the Colorado Business Corporation Act. Except as otherwise provided by law, the rights and obligations of holders of uncertificated shares and the rights and obligations of the holders of certificated shares of the same class and series shall be identical.

Section 2. Consideration for Shares. Certificated or uncertificated shares shall not be issued until the shares represented thereby are fully paid. The board of directors may authorize the issuance of certificated or uncertificated shares for consideration consisting of any tangible or intangible property of benefit to the corporation, including cash, promissory notes, services performed or other securities of the corporation. Future services shall not constitute payment or partial payment for shares of the corporation. The promissory note of a subscriber or an affiliate of a subscriber shall not constitute payment or partial payment for shares of the corporation unless the note is negotiable and is secured by collateral, other than the shares being purchased, having a fair market value at least equal to the principal amount of the note. For purposes of this Section 2, "promissory note" means a negotiable instrument on which there is an obligation to pay independent of collateral and does not include a non-recourse note.

Section 3. Lost Certificates. In case of the alleged loss, destruction or mutilation of a certificate of stock, the board of directors may direct the issuance of a new certificate or may register uncertificated shares in lieu thereof upon such terms and conditions in conformity with law as the board of directors may prescribe. The board of directors may in its discretion require an affidavit of lost certificate and/or a bond in such form and amount and with such surety as it may determine before issuing a new certificate or registering uncertificated shares.

Section 4. Transfer of Shares. Transfer of shares shall be made only on the books of the corporation by the registered holder thereof, or by such holder's attorney thereunto authorized by power of attorney and filed with the Secretary of the corporation or a transfer agent of the corporation. If such shares are certificated, upon surrender to the corporation or to a transfer agent of the corporation of a certificate of stock duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, and receipt of such documentary stamps as may be required by law and evidence of compliance with all applicable securities laws and other restrictions, the corporation shall issue a new certificate or register uncertificated shares to the person entitled thereto, and cancel the old certificate. Upon the receipt of proper transfer instructions of uncertificated shares by the holders thereof in person or by their duly authorized attorney, such uncertificated shares shall be cancelled and the corporation shall issue new equivalent certificated shares or register uncertificated shares to the person entitled thereto. Every such transfer of certificated or uncertificated shares shall be entered on the stock books of the corporation which shall be kept at its principal office or by the person and the place designated by the board of directors.

Except as otherwise expressly provided in Article II, Sections 7 and 11, and except for the assertion of dissenters' rights to the extent provided in Article 113 of the Colorado Business Corporation Act, the corporation shall be entitled to treat the registered holder of any shares of the corporation as the owner thereof for all purposes, and the corporation shall not be bound to recognize any equitable or other claim to, or interest in, such shares or rights deriving from such shares on the part of any person other than the registered holder, including without limitation any purchaser, assignee or transferee of such shares or rights deriving from such shares, unless and until such other person becomes the registered holder of such shares, whether or not the corporation shall have either actual or constructive notice of the claimed interest of such other person.

Section 5. Transfer Agent, Registrars and Paying Agents. The board of directors may at its discretion appoint one or more transfer agents, registrars and agents for making payment upon any class of stock, bond, debenture or other security of the corporation. Such agents and registrars may be located either within or outside Colorado. They shall have such rights and duties and shall be entitled to such compensation as may be agreed.

ARTICLE VI

Indemnification of Certain Persons

Section 1. Indemnification. For purposes of Article VI, a "Proper Person" means any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, and whether formal or informal, by reason of the fact that he is or was a director, officer, employee, fiduciary or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary or agent of any foreign or domestic profit or nonprofit corporation or of any partnership, joint venture, trust, profit or nonprofit unincorporated association, limited liability company, or other enterprise or employee benefit plan. The corporation shall indemnify any Proper Person against reasonably incurred expenses (including attorneys' fees), judgments, penalties, fines (including any excise tax assessed with respect to an employee benefit plan) and amounts paid in settlement reasonably incurred by him in connection with such action,

suit or proceeding if it is determined by the groups set forth in Section 4 of this Article VI that he conducted himself in good faith and that he reasonably believed (i) in the case of conduct in his official capacity with the corporation, that his conduct was in the corporation's best interests, or (ii) in all other cases (except criminal cases), that his conduct was at least not opposed to the corporation's best interests, or (iii) in the case of any criminal proceeding, that he had no reasonable cause to believe his conduct was unlawful. A Proper Person will be deemed to be acting in his official capacity while acting as a director, officer, employee or agent on behalf of this corporation and not while acting on this corporation's behalf for some other entity.

No indemnification shall be made under this Article VI to a Proper Person with respect to any claim, issue or matter in connection with a proceeding by or in the right of a corporation in which the Proper Person was adjudged liable to the corporation or in connection with any proceeding charging that the Proper Person derived an improper personal benefit, whether or not involving action in an official capacity, in which he was adjudged liable on the basis that he derived an improper personal benefit. Further, indemnification under this Section in connection with a proceeding brought by or in the right of the corporation shall be limited to reasonable expenses, including attorneys' fees, incurred in connection with the proceeding.

Section 2. Right to Indemnification. The corporation shall indemnify any Proper Person who was wholly successful, on the merits or otherwise, in defense of any action, suit, or proceeding as to which he was entitled to indemnification under Section 1 of this Article VI against expenses (including attorneys' fees) reasonably incurred by him in connection with the proceeding without the necessity of any action by the corporation other than the determination in good faith that the defense has been wholly successful.

Section 3. Effect of Termination of Action. The termination of any action, suit or proceeding by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person seeking indemnification did not meet the standards of conduct described in Section 1 of this Article VI. Entry of a judgment, by consent as part of a settlement shall not be deemed an adjudication of liability, as described in Section 2 of this Article VI.

Section 4. Groups Authorized to Make Indemnification Determination. Except where there is a right to indemnification as set forth in Sections 1 or 2 of this Article VI or where indemnification is ordered by a court in Section 5 of this Article VI, any indemnification shall be made by the corporation only as authorized in the specific case upon a determination by a proper group that indemnification of the Proper Person is permissible under the circumstances because he has met the applicable standards of conduct set forth in Section 1 of this Article VI. This determination shall be made by the board of directors by a majority vote of those present at a meeting at which a quorum is present, which quorum shall consist of directors not parties to the proceeding ("Quorum"). If a Quorum cannot be obtained, the determination shall be made by a majority vote of a committee of the board of directors designated by the board, which committee shall consist of two or more directors not parties to the proceeding, except that directors who are parties to the proceeding may participate in the designation of directors for the committee. If a Quorum of the board of directors cannot be obtained and the committee cannot be established, or even if a Quorum is obtained or the committee is designated and a majority of the directors constituting such Quorum or committee so directs, the determination shall be made by (i) independent legal counsel selected by a vote of the board of

directors or the committee in the manner specified in this Section 4 or, if a Quorum of the full board of directors cannot be obtained and a committee cannot be established, by independent legal counsel selected by a majority vote of the full board of directors (including directors who are parties to the action) or (ii) a vote of the shareholders.

Section 5. Court-Ordered Indemnification. Any Proper Person may apply for indemnification to the court conducting the proceeding or to another court of competent jurisdiction for mandatory indemnification under Section 2 of this Article VI, including indemnification for reasonable expenses incurred to obtain court-ordered indemnification. If the court determines that such Proper Person is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not he met the standards of conduct set forth in Section 1 of this Article VI or was adjudged liable in the proceeding, the court may order such indemnification as the court deems proper except that if the Proper Person has been adjudged liable, indemnification shall be limited to reasonable expenses incurred in connection with the proceeding and reasonable expenses incurred to obtain court-ordered indemnification.

Section 6. Advance of Expenses. Reasonable expenses (including attorneys' fees) incurred in defending an action, suit or proceeding as described in Section 1 of this Article VI may be paid by the corporation to any Proper Person in advance of the final disposition of such action, suit or proceeding upon receipt of (i) a written affirmation of such Proper Person's good faith belief that he has met the standards of conduct prescribed by Section 1 of this Article VI, (ii) a written undertaking, executed personally or on the Proper Person's behalf, to repay such advances if it is ultimately determined that he did not meet the prescribed standards of conduct (the undertaking shall be an unlimited general obligation of the Proper Person but need not be secured and may be accepted without reference to financial ability to make repayment), and (iii) a determination is made by the proper group (as described in Section 4 of this Article VI) that the facts as then known to the group would not preclude indemnification. Determination and authorization of payments shall be made in the same manner specified in Section 4 of this Article VI.

Section 7. Witness Expenses. The sections of this Article VI do not limit the corporation's authority to pay or reimburse expenses incurred by a director in connection with an appearance as a witness in a proceeding at a time when he has not been made a named defendant or respondent in the proceeding.

Section 8. Report to Shareholders. Any indemnification of or advance of expenses to a director in accordance with this Article VI, if arising out of a proceeding by or on behalf of the corporation, shall be reported in writing to the shareholders with or before the notice of the next shareholders' meeting. If the next shareholder action is taken without a meeting at the instigation of the board of directors, such notice shall be given to the shareholders at or before the time the first shareholder signs a writing consenting to such action.

ARTICLE VII

Provision of Insurance

By action of the board of directors, notwithstanding any interest of the directors in the action, the corporation may purchase and maintain insurance, in such scope and amounts as the board of directors deems appropriate, on behalf of any person who is or was a director, officer, employee,

fiduciary or agent of the corporation, or who, while a director, officer, employee, fiduciary or agent of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary or agent of any other foreign or domestic corporation or of any partnership, joint venture, trust, profit or nonprofit unincorporated association, limited liability company or other enterprise or employee benefit plan, against any liability asserted against, or incurred by, him in that capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of Article VI or applicable law. Any such insurance may be procured from any insurance company designated by the board of directors of the corporation, whether such insurance company is formed under the laws of Colorado or any other jurisdiction of the United States or elsewhere, including any insurance company in which the corporation has an equity interest or any other interest, through stock ownership or otherwise.

ARTICLE VIII

Miscellaneous

Section 1. Seal. The corporate seal of the corporation shall be circular in form and shall contain the name of the corporation and the words, “Seal, Colorado.”

Section 2. Fiscal Year. The fiscal year of the corporation shall be as established by the board of directors.

Section 3. Amendments. Except as hereinafter stated, the board of directors shall have power, to the maximum extent permitted by the Colorado Business Corporation Act, to make, amend and repeal the bylaws of the corporation at any regular or special meeting of the board of directors unless the shareholders, in making, amending or repealing a particular bylaw, expressly provide that the directors may not amend or repeal such bylaw. The directors may not amend Sections 2 or 3 of Article III, Article VI or Section 3 of Article VIII of the bylaws. Sections 2 and 3 of Article III, Article VI and Section 3 of Article VIII of the bylaws can only be amended or repealed by 80% of the votes of the shareholders entitled to be cast thereon. The shareholders also shall have the power to make, amend or repeal the bylaws of the corporation at any annual meeting or at any special meeting called for that purpose.

Section 4. Gender. The masculine gender is used in these bylaws as a matter of convenience only and shall be interpreted to include the feminine and neuter genders as the circumstances indicate.

Section 5. Conflicts. In the event of any irreconcilable conflict between these bylaws and either the corporation’s articles of incorporation or applicable law, the latter shall control.

Section 6. Definitions. Except as otherwise specifically provided in these bylaws, all terms used in these bylaws shall have the same definition as in the Colorado Business Corporation Act.

NGSG

NATURAL GAS SERVICES GROUP, INC.

NATURAL GAS SERVICES GROUP, INC.
508 WEST WALL STREET, SUITE 550
MIDLAND, TX 79701

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery, of information, up until 11:59 P.M. Eastern Time, June 15, 2016.

Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions and for electronic delivery, of information, up until 11:59 P.M. Eastern Time, June 15, 2016. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY **THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

The Board of Directors recommends that you vote FOR the following:	For	Withhold		
1 Election of Director	<input type="checkbox"/>	<input type="checkbox"/>		
Nominee				
01. John W. Chisholm (for a term expiring in 2019)				
The Board of Directors recommends you vote FOR the following proposal(s):	For	Against	Abstain	
2 To consider an advisory vote on the Company's compensation programs for its named executive officers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3 To approve the amendment and restatement of the 1998 Stock Option Plan to extend the Plan's expiration date to February 28, 2026 and increase the number of shares reserved for issuance under the Plan by 250,000 shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4 Ratification of the appointment of BDO USA, LLP as the Company's Independent Registered Public Accounting Firm for 2016.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5 To consider an amendment to the Company's Bylaws to implement a majority voting standard in uncontested elections of Directors.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Please indicate if you plan to attend this meeting:	Yes	No		
	<input type="checkbox"/>	<input type="checkbox"/>		
Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.				
<input type="text"/>		<input type="text"/>		
Signature [PLEASE SIGN WITHIN BOX]		Date		
<input type="text"/>		<input type="text"/>		
Signature (Joint Owners)		Date		

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice & Proxy Statement, 10-K/Annual Report Combo is/are available at www.proxyvote.com .

**NATURAL GAS SERVICES GROUP, INC.
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
ANNUAL MEETING OF SHAREHOLDERS JUNE 16, 2016.**

The shareholder(s) hereby appoint(s) Stephen C. Taylor and G. Larry Lawrence, or either of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of NATURAL GAS SERVICES GROUP, INC. that the shareholder(s) is/are entitled to vote at the Annual Meeting of Shareholders to be held at 8:30 AM, CDT on June 16, 2016, at the Petroleum Club of Midland, at 501 West Wall Street, Midland, TX 79701, and any adjournment or postponement thereof.

THIS PROXY, WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED BY THE SHAREHOLDER(S). IF NO SUCH DIRECTIONS ARE MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEE LISTED ON THE REVERSE SIDE FOR THE BOARD OF DIRECTORS and FOR ITEMS 2, 3, 4 AND 5. IF ANY OTHER MATTER PROPERLY COMES BEFORE THE MEETING, THE PERSONS NAMED IN THE PROXY WILL VOTE IN THEIR DISCRETION.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED REPLY ENVELOPE.

Continued and to be signed on reverse side

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



FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2015**

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)

<u>Colorado</u>	<u>75-2811855</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<u>508 W. Wall St. Suite 550, Midland, Texas</u>	<u>79701</u>
(Address of principal executive offices)	(Zip Code)
<u>Registrant's telephone number, including area code:</u>	<u>(432) 262-2700</u>

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<u>Common Stock, \$.01 par value</u>	<u>New York Stock Exchange</u>

Securities registered pursuant to section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.[]

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 definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

(Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer 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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2015 was approximately \$288,174,839 based on the closing price of the common stock on that date on the New York Stock Exchange.

At February 12, 2016, there were 12,789,197 shares of the Registrant's common stock outstanding.

Documents Incorporated by Reference

Certain information called for in Items 10, 11, 12, 13 and 14 of Part III are incorporated by reference to the registrant's definitive proxy statement for the annual meeting of shareholders to be held on June 16, 2016.

FORM 10-K
NATURAL GAS SERVICES GROUP, INC.
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and information pertaining to us, our industry and the oil and natural gas industry that is based on the beliefs of our management, as well as assumptions made by and information currently available to our management. All statements, other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future financial position, growth strategy, budgets, projected costs, plans and objectives of management for future operations, are forward-looking statements. We use the words “may,” “will,” “expect,” “anticipate,” “estimate,” “believe,” “continue,” “intend,” “plan,” “budget” and other similar words to identify forward-looking statements. You should read statements that contain these words carefully and should not place undue reliance on these statements because they discuss future expectations, contain projections of results of operations or of our financial condition and/or state other “forward-looking” information. We do not undertake any obligation to update or revise publicly any forward-looking statements. Although we believe our expectations reflected in these forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations or assumptions will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include, but are not limited to, the following factors and the other factors described in this Annual Report on Form 10-K under the caption “Risk Factors”:

- conditions in the oil and natural gas industry, including the supply and demand for natural gas and wide fluctuations and possible prolonged depression in the prices of oil and natural gas;
- economic challenges presently faced by our customers in the oil and natural gas business that, in turn, could adversely affect our sales, rentals and collectability of our accounts receivable;
- regulation or prohibition of new well completion techniques;
- competition among the various providers of compression services and products;
- changes in safety, health and environmental regulations;
- changes in economic or political conditions in the markets in which we operate;
- failure of our customers to continue to rent equipment after expiration of the primary rental term;
- the inherent risks associated with our operations, such as equipment defects, malfunctions and natural disasters;
- our inability to comply with covenants in our debt agreements and the decreased financial flexibility associated with our debt;
- future capital requirements and availability of financing;
- fabrication and manufacturing costs;
- general economic conditions;
- acts of terrorism; and
- fluctuations in interest rates.

We believe that it is important to communicate our expectations of future performance to our investors. However, events may occur in the future that we are unable to accurately predict or that we are unable to control. When considering our forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

Unless the context otherwise requires, references in this Annual Report on Form 10-K to “Natural Gas Services Group,” the “Company,” “we,” “us,” “our” or “ours” refer to Natural Gas Services Group, Inc. Certain specialized terms used in describing our natural gas compressor business are defined in "Glossary of Industry Terms" on page 8.

The Company

We are a leading provider of small to medium horsepower compression equipment to the natural gas industry. We focus primarily on the non-conventional natural gas and oil production business in the United States (such as coal bed methane, gas shale, tight gas and oil shales), which, according to data from the Energy Information Administration ("EIA"), is the single largest and fastest growing segment of U.S. hydrocarbon production. We manufacture, fabricate and rent natural gas compressors that enhance the production of natural gas wells and provide maintenance services for those compressors. In addition, we sell custom fabricated natural gas compressors to meet customer specifications dictated by well pressures, production characteristics and particular applications. We also manufacture and sell flare systems for oil and gas plant and production facilities.

The vast majority of our rental operations are in non-conventional natural gas and oil regions, which typically have lower initial reservoir pressures, lower production pressures and/or faster well decline rates. These areas usually require compression to be installed sooner and with greater frequency.

Natural gas compressors are used in a number of applications for the production and enhancement of gas wells and in gas transportation lines and processing plants. Compression equipment is often required to boost a well's production to economically viable levels and enable gas to continue to flow in the pipeline to its destination.

We increased our revenue to \$95.9 million in 2015 from \$65.2 million in 2011. During the same period, income from operations increased to \$15.1 million from \$14.9 million. Our compressor rental fleet has grown to 2,622 compressors at December 31, 2015 from 2,120 compressors at the end of 2011.

Our revenue decreased to \$95.9 million from \$97.0 million for the year ended December 31, 2015 compared to the year ended December 31, 2014. Net income for the year ended December 31, 2015 decreased to \$10.1 million (\$0.79 per diluted share), as compared to \$14.1 million (\$1.11 per diluted share) for the year ended December 31, 2014.

At December 31, 2015, current assets were \$73.2 million, which included \$35.5 million of cash and cash equivalents. Current liabilities were \$4.6 million, and our line of credit due in 2017 was \$417,000. Our stockholders' equity as of December 31, 2015 was \$224.0 million.

See "Item 6, Management's Discussion and Analysis of Financial Condition and Results of Operations" for further financial information.

We were incorporated in Colorado on December 17, 1998 and maintain our principal offices at 508 W. Wall St., Suite 550, Midland, Texas 79701 and our telephone number is (432) 262-2700.

Overview and Outlook

The market for compression equipment and services is substantially dependent on the condition of the natural gas and oil industry. In particular, the willingness of natural gas and oil companies to make capital expenditures on exploration, drilling and production of natural gas and oil in the U.S. The level of activity and capital expenditures has generally been dependent upon the prevailing view of future gas and oil prices, which are influenced by numerous factors, including the level of supply or demand for natural gas and oil and the impact on price of natural gas and oil, worldwide economic activity, interest rates and the cost of capital, environmental regulation, seasonal fluctuations and weather patterns. Natural gas and oil prices and the level of production activity have historically been characterized by significant volatility. Increasing oil and natural gas prices from 2005 through mid-2008 resulted in natural gas and oil operators increasing capital spending for exploration, development and production programs. However, in mid-2008, natural gas and oil prices began to decline. This decline resulted in reduced production and capital spending by some natural gas and oil companies, and had an impact on demand for compression equipment.

The reduction in capital expenditures and production in the natural gas and oil industry, combined with problems in the global economy, led to a downturn in the demand for our products and services in 2009 and 2010. In 2011, a slow recovery began which produced an improvement in the utilization rate on our rental fleet and stability in our sales backlog. In 2012, we saw growth in demand for our products and that growth continued in 2013 and 2014. Towards the end of 2014 oil prices began a steep decline which has resulted in capital budget cuts for many energy companies in 2015. These budget reductions translated to fewer well completions and a softening of near-term demand for compression that is expected to continue throughout 2016. See “Item 1 -- Business – Our Operating Units” and “Business – Backlog” for more information.

According to the U.S. Energy Information Administration (“EIA”), total consumption of natural gas in the United States increased 3.2% for the twelve months ended November 2015 compared to the same period 2014. This follows a 2.8% and a 2.1% increase in the periods from 2013 to 2014 and 2012 to 2013, respectively. EIA expects total natural gas consumption in the U.S. to increase slightly in 2016. While we anticipate long-term increased demand for natural gas, we expect our business to experience significant pressure on revenues for 2016 due to the overall uncertainty in the combined oil and gas market.

Long-Term Industry Trends

Natural gas prices historically have been volatile, and this volatility is expected to continue. Oil and natural gas are linked commodities with many drilling projects producing both products. The sustained oil price collapse that began towards the end of 2014 has made some of those drilling projects uneconomic. Uncertainty continues to exist as to the direction of future natural gas and near-term crude oil price and oil trends are down in the United States and worldwide. Over the last several years gas prices have not shown the resiliency that crude oil prices have and now crude prices are also down sharply. We believe that natural gas is a more environmentally friendly source of energy which is likely to result in increases in demand over time. Being primarily a provider of services and equipment to natural gas producers, we are impacted by changes in natural gas, crude oil and condensate prices. Longer term natural gas prices will be determined by the supply and demand for natural gas as well as the prices of competing fuels, such as oil and coal. Prices for oil and natural gas will also be determined by the energy strategies of the world's top producing companies.

We believe part of the growth of the rental compression capacity in the U.S. market has been driven by the trend toward outsourcing by energy producers and processors. Renting does not require the purchaser to make large capital expenditures for new equipment or to obtain financing through a lending institution. This allows the customer's capital to be used for additional exploration and production of natural gas and oil. Balance sheet pressure associated with low energy prices could make renting an even more likely option, although overall producing activity could slow down.

Notwithstanding the downturn in natural gas prices, we believe that there will continue to be a growing demand for natural gas, in the long-term. We expect long-term demand for our products and services will increase as prices recover as a result of:

- the increasing demand for energy, both domestically and abroad;
- continued non-conventional gas exploration and production;
- environmental considerations which provide strong incentives to use natural gas in place of other carbon fuels;
- the cost savings of using natural gas rather than electricity for heat generation;
- implementation of international environmental and conservation laws;
- the aging of producing natural gas reserves worldwide;
- the extensive supply of undeveloped non-conventional natural gas reserves;
- the increased drilling for shale oil and its associated gas production; and
- the use of our equipment for gas lift on oil wells.

Our Operating Units

We identify our operating units based upon major revenue sources as Gas Compressor Rental, Engineered Equipment Sales, Service and Maintenance and Corporate.

Gas Compressor Rental. Our rental business is primarily focused on non-conventional natural gas and oil production. We provide rental of small to medium horsepower compression equipment to customers under contracts typically

having minimum initial terms of six to twenty four months. Historically, in our experience, most customers retain the equipment beyond the expiration of the initial term. By outsourcing their compression needs, we believe our customers are able to increase their revenues by producing a higher volume of natural gas due to greater equipment run-time. Outsourcing also allows our customers to reduce their compressor downtime, operating and maintenance costs and capital investments and more efficiently meet their changing compression needs. We maintain and service compressor equipment rented to our customers.

The size, type and geographic diversity of our rental fleet enables us to provide our customers with a range of compression units that can serve a wide variety of applications, and to select the correct equipment for the job, rather than the customer trying to fit the job to its own equipment. We base our gas compressor rental rates on several factors, including the cost and size of the equipment, the type and complexity of service desired by the customer, the length of contract and the inclusion of any other services desired, such as installation, transportation and daily operation.

As of December 31, 2015, we had 2,622 natural gas compressors in our rental fleet totaling 372,482 horsepower, as compared to 2,879 natural gas compressors totaling 401,361 horsepower at December 31, 2014. As of December 31, 2015, we had 1,818 natural gas compressors totaling 256,204 horsepower rented to 84 customers, compared to 2,189 natural gas compressors totaling 301,392 horsepower rented to 102 customers at December 31, 2014. As of December 31, 2015, the utilization rate of our rental fleet was 69.3% compared to 76.0% as of December 31, 2014.

Engineered Equipment Sales. This operating unit includes the following components:

- **Compressor fabrication.** Fabrication involves the assembly of compressor components manufactured by us or other vendors into compressor units that are ready for rental or sale. In addition to fabricating compressors for our rental fleet, we engineer and fabricate natural gas compressors for sale to customers to meet their specifications based on well pressure, production characteristics and the particular applications for which compression is sought.
- **Compressor manufacturing.** We design and manufacture our own proprietary line of reciprocating compressor frames, cylinders and parts known as our “CiP”, or Cylinder-in-Plane, product line. We use the finished components to fabricate compressor units for our rental fleet or for sale to customers. We also sell finished components to other fabricators.
- **Flare fabrication.** We design, fabricate, sell, install and service flare stacks and related ignition and control devices for the onshore and offshore incineration of gas compounds such as hydrogen sulfide, carbon dioxide, natural gas and liquefied petroleum gases. Applications for this equipment are often environmentally and regulatory driven, and we believe we are a leading supplier to this market.
- **Parts sales and compressor rebuilds.** To provide customer support for our compressor and flare sales businesses, we stock varying levels of replacement parts at our Midland, Texas facility and at field service locations. We also provide an exchange and rebuild program for screw compressors and maintain an inventory of new and used compressors to facilitate this part of our business.

Service and Maintenance. We service and maintain compressors owned by our customers on an “as needed” basis. Natural gas compressors require routine maintenance and periodic refurbishing to prolong their useful life. Routine maintenance includes physical and visual inspections and other parametric checks that indicate a change in the condition of the compressors. We perform wear-particle analysis on all packages and perform overhauls on a condition-based interval or a time-based schedule. Based on our past experience, these maintenance procedures maximize component life and unit availability and minimize downtime.

Business Strategy

During the downturn in the economy beginning in mid 2008, our strategy was to reduce expenses in line with the lower anticipated business activity, and fabricate compressor equipment only in direct response to market requirements. As the economy recovered, we adjusted this strategy to ensure that we kept pace with growth while balancing appropriate business risk. Entering into 2015 we reinstated our proven strategy of reducing expenses and fabricating on an as needed basis and will continue this strategy in 2016. See “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Performance Trends and Outlook” for more information. Our long-term intentions to grow our revenue and profitability are based on the following business strategies:

- **Expand rental fleet.** We intend to prudently increase the size of our rental fleet by fabricating compressor units in numbers that correspond to the growth of the market and in relation to market share gains we may experience. We believe our

growth will continue to be primarily driven through our placement of small to medium horsepower wellhead natural gas compressors for non-conventional natural gas and oil production.

- **Geographic expansion.** We will continue to consolidate our operations in existing areas, as well as pursue focused expansion into new geographic regions as opportunities are identified. We presently provide our products and services to a customer base of oil and natural gas exploration and production companies operating in Colorado, Kansas, Michigan, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, Texas, Utah, West Virginia and Wyoming.
- **Expand our 'secondary' product lines.** In addition to our primary rental and engineered product business lines, we will emphasize the growth of our other products, e.g., flares, CiP compressor products and general compressor maintenance and repair services.
- **Selectively pursue acquisitions.** We will continue to evaluate potential acquisitions joint ventures and other opportunities that would provide us with access to new markets or enhance our current market position.

Competitive Strengths

We believe our competitive strengths include:

- **Superior customer service.** Our emphasis on the small to medium horsepower markets has enabled us to effectively meet the evolving needs of our customers. We believe these markets have been under-serviced by our larger competitors which, coupled with our personalized services and in-depth knowledge of our customers' operating needs and growth plans, have allowed us to enhance our relationships with existing customers as well as attract new customers. The size, type and geographic diversity of our rental fleet enable us to provide customers with a range of compression units that can serve a wide variety of applications. We are able to select the correct equipment for the job, rather than the customer trying to fit its application to our equipment.
- **Diversified product line.** Our compressors are available as high and low pressure rotary screw and reciprocating packages. They are designed to meet a number of applications, including wellhead production, natural gas gathering, natural gas transmission, vapor recovery and gas and plunger lift. In addition, our compressors can be built to handle a variety of gas mixtures, including air, nitrogen, carbon dioxide, hydrogen sulfide and hydrocarbon gases. A diversified compression product line helps us compete by being able to satisfy widely varying pressure, volume and production conditions that customers encounter. Our "Flare King" product line provides flares and gas incineration devices to the industry for production maintenance and environmental compliance.
- **Purpose-built rental compressors.** Our rental compressor packages have been designed and built to address the primary requirements of our customers in the producing regions in which we operate. Our units are compact in design and are easy, quick and inexpensive to move, install and start-up. Our control systems are technically advanced and allow the operator to start and stop our units remotely and/or in accordance with well conditions. We believe our rental fleet is also one of the newest.
- **Experienced management team.** On average, each of our executive and operating team members have over 30 years of oilfield services industry experience. We believe our management team has successfully demonstrated its ability to grow our business during times of expansion and to manage through downturns.
- **Broad geographic presence.** We presently provide our products and services to a customer base of oil and natural gas exploration and production companies operating in Colorado, Kansas, Michigan, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, Texas, Utah, West Virginia and Wyoming. Our footprint allows us to service many of the natural gas producing regions in the United States. We believe that operating in diverse geographic regions allows us better utilization of our compressors, minimal incremental expenses, operating synergies, volume-based purchasing, leveraged inventories and cross-trained personnel. We also sell engineered compression products to international customers.
- **Long-standing customer relationships.** We have developed long-standing relationships providing compression equipment to many major and independent oil and natural gas companies. Our customers generally continue to rent our compressors after the expiration of the initial terms of our rental agreements, which we believe reflects their satisfaction with the reliability and performance of our services and products.

Major Customers

Sales and rental income to Devon Energy Production, Inc. ("Devon") and Occidental Permian, LTD. ("Oxy") for the year ended December 31, 2015 amounted to 21% and 10% of our revenue, respectively. Sales and rental income to Devon and EOG Resources, Inc. ("EOG") in the year ended December 31, 2014 amounted to 18% and 15% of our revenue, respectively. Sales and

rental income to EOG and Devon in the year ended December 31, 2013 amounted to 18% and 15% of our revenue. No other single customer accounted for more than 10% of our revenues in 2015, 2014 or 2013.

Oxy and Devon amounted to 25% and 10% of our accounts receivable as of December 31, 2015. EOG, Promatcon Tepatguna ("Promatcon") and Oxy amounted to 20%, 18% and 14% of our accounts receivable as of December 31, 2014. No other customers amounted to more than 10% of our accounts receivable as of December 31, 2015 and 2014. The loss of any of the above customers could have a material adverse effect on our business, financial condition, results of operations and cash flows, depending upon the demand for our compressors at the time of such loss and our ability to attract new customers.

Sales and Marketing

Our sales force pursues the rental and sales market for compressors and flare equipment and other services in their respective territories. Additionally, our personnel coordinate with each other to develop relationships with customers who operate in multiple regions. Our sales and marketing strategy is focused on communication with current customers and potential customers through frequent direct contact, technical assistance, print literature, direct mail and referrals. Our sales and marketing personnel coordinate with our operations personnel in order to promptly respond to and address customer needs. Our overall sales and marketing efforts concentrate on demonstrating our commitment to enhancing the customer's cash flow through enhanced product design, fabrication, manufacturing, installation, customer service and support.

Competition

We have a number of competitors in the natural gas compression segment, some of which have greater financial resources. We believe that we compete effectively on the basis of price, customer service, including the ability to place personnel in remote locations, flexibility in meeting customer needs, and quality and reliability of our compressors and related services.

Compressor industry participants can achieve significant advantages through increased size and geographic breadth. As the number of rental compressors in our rental fleet increases, the number of sales, support, and maintenance personnel required and the minimum level of inventory do not increase proportionately.

Backlog

As of December 31, 2015, we had a sales backlog of approximately \$4.1 million compared to \$5.8 million as of December 31, 2014. We expect to fulfill the backlog in the first half of 2016. Sales backlog consists of firm customer orders for which a purchase or work order has been received, satisfactory credit or a financing arrangement exists, and delivery is scheduled. In addition, the major components of our compressors are acquired from suppliers through periodic purchase orders that in many instances require three or four months of lead time prior to delivery of the order.

Employees

As of December 31, 2015, we had 263 total employees, none of which are represented by a labor union. We believe we have good relations with our employees.

Liability and Other Insurance Coverage

Our equipment and services are provided to customers who are subject to hazards inherent in the oil and natural gas industry, such as blowouts, explosions, craterings, fires, and oil spills. We maintain liability insurance that we believe is customary in the industry and which includes environmental cleanup, but excludes product warranty insurance because the majority of components on our compressor unit are covered by the manufacturers. We also maintain insurance with respect to our facilities. Based on our historical experience, we believe that our insurance coverage is adequate. However, there is a risk that our insurance may not be sufficient to cover any particular loss or that insurance may not cover all losses. In addition, insurance rates have in the past been subject to wide fluctuation, and changes in coverage could result in less coverage, increases in cost or higher deductibles and retentions.

Government Regulation

All of our operations and facilities are subject to numerous federal, state, foreign and local laws, rules and regulations related to various aspects of our business, including containment and disposal of hazardous materials, oilfield waste, other waste materials and acids.

To date, we have not been required to expend significant resources in order to satisfy applicable environmental laws and regulations. We do not anticipate any material capital expenditures for environmental control facilities or extraordinary expenditures to comply with environmental rules and regulations in the foreseeable future. However, compliance costs under existing laws or under any new requirements could become material and we could incur liabilities for noncompliance.

Our business is generally affected by political developments and by federal, state, foreign and local laws and regulations, which relate to the oil and natural gas industry. The adoption of laws and regulations affecting the oil and natural gas industry for economic, environmental and other policy reasons could increase our costs and could have an adverse effect on our operations. The state and federal environmental laws and regulations that currently apply to our operations could become more stringent in the future.

We have utilized operating and disposal practices that were or are currently standard in the industry. However, materials such as solvents, thinner, waste paint, waste oil, wash down waters and sandblast material may have been disposed of or released in or under properties currently or formerly owned or operated by us or our predecessors. In addition, some of these properties have been operated by third parties over whom we have no control either as to such entities' treatment of materials or the manner in which such materials may have been disposed of or released.

The federal Comprehensive Environmental Response Compensation and Liability Act of 1980, commonly known as CERCLA, and comparable state statutes impose strict liability on:

- owners and operators of sites, and
- persons who disposed of or arranged for the disposal of "hazardous substances" found at sites.

Waste Management and Disposal

The federal Resource Conservation and Recovery Act ("RCRA") and analogous state laws and their implementing regulations govern the generation, transportation, treatment, storage and disposal of hazardous and non-hazardous solid wastes. During the course of our operations, we generate wastes (including, but not limited to, used oil, antifreeze, filters, paints, solvents and abrasive blasting materials) in quantities regulated under RCRA. The EPA and various state agencies have limited the approved methods of disposal for these types of wastes. CERCLA and analogous state laws and their implementing regulations impose strict, and under certain conditions, joint and several liability without regard to fault or the legality of the original conduct on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include current and past owners and operators of the facility or disposal site where the release occurred and any company that transported, disposed of, or arranged for the transport or disposal of the hazardous substances released at the site. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, where contamination may be present, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury, property damage and recovery of response costs allegedly caused by hazardous substances or other pollutants released into the environment.

We currently own or lease, and in the past have owned or leased, a number of properties that have been used in support of our operations for a number of years. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons, hazardous substances, or other regulated wastes may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where such materials have been taken for disposal by companies sub-contracted by us. In addition, some of these properties may have been previously owned or operated by third parties whose treatment and disposal or release of hydrocarbons, hazardous substances or other regulated wastes was not under our control. These properties and the materials released or disposed thereon may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate historical property contamination, or to perform certain operations to prevent future contamination. We are not currently under any order requiring that we undertake or pay for any cleanup activities. However, we cannot provide any assurance that we will not receive any such order in the future.

The federal Water Pollution Control Act and the Oil Pollution Act of 1990 and implementing regulations govern:

- the prevention of discharges, including oil and produced water spills, and
- liability for drainage into waters.

Air Emissions

Our operations are also subject to federal, state, and local regulations. The Clean Air Act and implementing regulations and comparable state laws and regulations regulate emissions of air pollutants from various industrial sources and also impose various monitoring and reporting requirements, including requirements related to emissions from certain stationary engines, such as those on our compressor units. These laws and regulations impose limits on the levels of various substances that may be emitted into the atmosphere from our compressor units and require us to meet more stringent air emission standards and install new emission control equipment on all of our engines built after July 1, 2008. In addition, the EPA issued regulations in 2012 that require the reduction of emissions of volatile organic compounds, air toxics and methane, a greenhouse gas, at certain oil and gas operations. We are not currently aware of material impacts to our operations associated with these rules.

We believe that our existing environmental control procedures are adequate and that we are in substantial compliance with environmental laws and regulations, and the phasing in of emission controls and other known regulatory requirements should not have a material adverse affect on our financial condition or operational results. However, it is possible that future developments, such as new or increasingly strict requirements and environmental laws and enforcement policies there under, could lead to material costs of environmental compliance by us. While we may be able to pass on the additional cost of complying with such laws to our customers, there can be no assurance that attempts to do so will be successful. Some risk of environmental liability and other costs are inherent in the nature of our business, however, and there can be no assurance that environmental costs will not rise.

In recent years, increased concern has been raised over the protection of the environment. Legislation to regulate emissions of greenhouse gases has been introduced in Congress, and there has been a wide-ranging policy debate, both nationally and internationally, regarding the impact of these gases and possible means for their regulation. In addition, efforts have been made and continue to be made in the international community toward the adoption of international treaties or protocols that would address global climate change issues, such as the United Nations Climate Change Conference in Copenhagen in 2009 and Paris Accord in 2015. Also the EPA has undertaken new efforts to collect information regarding greenhouse gas emissions and their effects. Recently, the EPA declared that certain greenhouse gases represent a danger to human health and proposed to expand its regulations relating to those emissions. To the extent that new laws or other governmental actions restrict the energy industry or impose additional environmental protection requirements that result in increased costs to the oil and gas industry, we could be adversely affected. We cannot determine to what extent our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

Occupational Safety and Health

We are subject to the requirements of Occupational Safety and Health Administration ("OSHA") and comparable state statutes. These laws and the implementing regulations strictly govern the protection of the health and safety of employees. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA, and similar state statutes require that we maintain and/or disclose information about hazardous materials used or produced in our operations. We believe that we are in compliance with these applicable requirements and with other comparable laws.

Patents, Trademarks and Other Intellectual Property

We believe that the success of our business depends more on the technical competence, creativity and marketing abilities of our employees than on any individual patent, trademark, or copyright. Nevertheless, as part of our ongoing research, development and manufacturing activities, we may seek patents when appropriate on inventions concerning new products and product improvements. We do not own any unexpired patents. Although we continue to use the patented technology and consider it useful in certain applications, we do not consider the expired patent to be material to our business as a whole.

Suppliers and Raw Materials

Fabrication of our rental compressors involves the purchase by us of engines, compressors, coolers and other components, and the assembly of these components on skids for delivery to customer locations. These major components of our compressors are acquired through periodic purchase orders placed with third-party suppliers on an "as needed" basis, which typically 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 are unable to increase our rental rates and sale prices proportionate to any such component price increases.

Available Information

We use our website as a channel of distribution for company information. We make available free of charge on the Investor Relations section of our website (www.ngsgi.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. We also make available through our website other reports filed with or furnished to the SEC under the Securities Exchange Act of 1934, as amended, including our proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act, as well as our Code of Business Ethics and the charters to our various Committees of our Board of Directors. Paper copies of our filings are also available, without charge upon written request, at Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. The information contained in our website is not part of this Report.

Glossary of Industry Terms

"CiP" - A branded, proprietary gas compressor product line designed, manufactured and packaged by the Company. The 'Cylinder in Plane' design results in a compact and vibration-free compressor unit that particularly lends itself to unconventional wellhead applications, air compression and compressed natural gas requirements.

"coal bed methane" – A natural gas generated during coal formation and provided from coal seams or adjacent sandstones.

"flare" – A tall stack equipped with burners used as a safety device at wellheads, refining facilities, gas processing plants, and chemical plants. Flares are used for the combustion and disposal of combustible gases. The gases are piped to a remote, usually elevated, location and burned in an open flame in the open air using a specially designed burner tip, auxiliary fuel, and steam or air. Combustible gases are flared most often due to emergency relief, overpressure, process upsets, startups, shutdowns, and other operational safety reasons. Natural gas that is uneconomical for sale is also flared. Often natural gas is flared as a result of the unavailability of a method for transporting such gas to markets.

"gas lift" – A production enhancement technique whereby natural gas is injected into an oil well to increase/improve the oil production.

"gas shale" – Fine grained rocks where the predominant gas storage mechanism is absorption and gas is stored in volumes that are potentially economic.

"oil shale" – Also referred to as tight oil, is petroleum that consists of light crude oil contained in petroleum-bearing formations of low-permeability, often shale or tight sandstone.

"reciprocating compressors" – A reciprocating compressor is a type of compressor which compresses vapor by using a piston in a cylinder and a back-and-forth motion.

"screw compressors" – A type of compressor used in low-pressure and vapor compression applications where two intermesh rotors create pockets of continuously decreasing volume, in which the gas is compressed and its pressure is increased.

"tight gas" – A gas bearing sandstone or carbonate matrix (which may or may not contain natural fractures) which exhibits a low-permeability (tight) reservoir.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks associated with owning our common stock. Although the risks described below are the risks that we believe are material, they are not the only risks relating to our industry, our business and our common stock. Additional risks and uncertainties, including those that we have not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or results of operations.

Risks Associated With Our Industry

Adverse macroeconomic and business conditions may significantly and negatively affect our results of operations.

Economic conditions in the United States and abroad have, and will likely continue to, affect our revenue and profitability. The condition of domestic and global financial markets, continued low natural gas and oil prices, and the potential for disruption and illiquidity in the credit markets could have an adverse effect on our operating results and financial condition, and if sustained for an extended period, such adverse effects could become significant. Uncertainty and turmoil in the credit markets may negatively impact the ability of our customers to finance purchases of our products and services and could result in a decrease in, or cancellation of, orders included in our backlog or adversely affect the collectability of our receivables. If the availability of credit to our customers is reduced, they may reduce their drilling and production expenditures, thereby decreasing demand for our products and services, which could have a negative impact on our financial condition. A prolonged period of depressed prices for gas and oil would likely result in delays or cancellation of projects by our customers, reducing the demand for our products and services.

Decreased oil and natural gas prices and oil and gas industry expenditure levels could adversely affect our revenue.

Our revenue is derived primarily from expenditures in the oil and natural gas industry, which, in turn, are based on budgets to explore for, develop and produce oil and natural gas. When these expenditures decline, our revenue will suffer. The industry's willingness to explore for, develop and produce oil and natural gas depends largely upon the prevailing view of future oil and natural gas prices. Prices for oil and natural gas historically have been, and are likely to continue to be, highly volatile. Many factors affect the supply and demand for oil and natural gas and, therefore, influence oil and natural gas prices, including:

- the level of oil and natural gas production;
- the level of oil and natural gas inventories;
- domestic and worldwide demand for oil and natural gas;
- the expected cost of developing new reserves;
- the cost of producing oil and natural gas;
- the level of drilling and completions activity;
- inclement weather;
- domestic and worldwide economic activity;
- regulatory and other federal and state requirements in the United States;
- the ability of the Organization of Petroleum Exporting Countries and other large producers to set and maintain production levels and prices for oil;
- political conditions in or affecting oil and natural gas producing countries;
- terrorist activities in the United States and elsewhere;
- the cost of developing alternate energy sources;
- environmental regulation; and
- tax policies.

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. Our rental contracts are generally short-term, and oil and natural gas companies tend to respond quickly to upward or downward changes in prices. Any reduction in drilling and production activities may materially erode both pricing and utilization rates for our equipment and services and adversely affects our financial results. As a result, we may suffer losses, be unable to make necessary capital expenditures and be unable to meet our financial obligations.

The intense competition in our industry could result in reduced profitability and loss of market share for us.

We compete with the oil and natural gas industry's largest equipment and service providers who have greater name recognition than we do. These companies also have substantially greater financial resources, larger operations and greater budgets for marketing, research and development than we do. They may be better able to compete because of their broader geographic dispersion and ability to take advantage of international opportunities, the greater number of compressors in their fleet or their product and service diversity. As a result, we could lose customers and market share to those competitors. These companies may also be better positioned than us to successfully endure downturns in the oil and natural gas industry.

Our operations may be adversely affected if our current competitors or new market entrants introduce new products or services with better prices, features, performance or other competitive characteristics than our products and services. Competitive pressures or other factors also may result in significant price competition that could harm our revenue and our business. Additionally, we may face competition in our efforts to acquire other businesses.

Our industry is highly cyclical, and our results of operations may be volatile.

Our industry is highly cyclical, with periods of high demand and high pricing followed by periods of low demand and low pricing. Periods of low demand intensify the competition in the industry and often result in rental equipment being idle for long periods of time. We may be required to enter into lower rate rental contracts in response to market conditions and our rentals and sales revenue may decrease as a result of such conditions. Due to the short-term nature of most of our rental contracts, changes in market conditions can quickly affect our business. As a result of the cyclicity of our industry, our results of operations may be volatile in the future.

Increased regulation or ban of current fracturing techniques could reduce demand for our compressors

Fracturing (frac) is a process that results in the creation of fractures in geological formations in order to stimulate production from oil and natural gas wells. Fracturing is also done to increase the rate and ultimate recovery of oil and natural gas. Hydraulic frac is the technique that has allowed domestic oil and natural gas exploration and production companies to produce massive shale deposits often referred to as unconventional plays. Concerns have been raised over possible environmental damages related to fluids used in the frac process. While the FRAC (Fracturing Responsibility and Awareness of Chemicals) Act has been introduced on multiple occasions in Congress, as of February 1, 2016 the Act has yet to be adopted. The FRAC Act seeks to amend the Safe Drinking Water Act so that hydraulic fracturing would be regulated on a federal level. In some states there are initiatives at the local level to regulate or ban fracturing activities.

A ban of hydraulic fracturing would likely halt some projects, including unconventional projects, at least temporarily. Expanded regulations are likely to introduce a period of uncertainty as companies determine ways to proceed. Any curtailment could result in a reduction of demand for our compressors, potentially affecting both sales and rentals of our units.

We are subject to extensive environmental laws and regulations that could require us to take costly compliance actions that could harm our financial condition.

Our fabrication and maintenance operations are significantly affected by stringent and complex federal, state and local laws and regulations governing the discharge of substances into the environment or otherwise relating to environmental protection. In these operations, we generate and manage hazardous wastes such as solvents, thinner, waste paint, waste oil, wash down wastes, and sandblast material. We attempt to use generally accepted operating and disposal practices and, with respect to acquisitions, will attempt to identify and assess whether there is any environmental risk before completing an acquisition. Based on the nature of the industry, however, hydrocarbons or other wastes may have been disposed of or released on or under properties owned or leased by us or on or under other locations where such wastes have been taken for disposal. The waste on these properties may be subject to federal or state environmental laws that could require us to remove the wastes or remediate sites where they have been released. We could be exposed to liability for cleanup costs, natural resource and other damages as a result of our

conduct or the conduct of, or conditions caused by, prior owners, lessees or other third parties. Environmental laws and regulations have changed in the past, and they are likely to change in the future. If current existing regulatory requirements or enforcement policies change, we may be required to make significant unanticipated capital and operating expenditures.

Any failure by us to comply with applicable environmental laws and regulations may result in governmental authorities taking actions against our business that could harm our operations and financial condition, including the:

- issuance of administrative, civil and criminal penalties;
- denial or revocation of permits or other authorizations;
- reduction or cessation in operations; and
- performance of site investigatory, remedial or other corrective actions.

Risks Associated With Our Company

As of December 31, 2015, a majority of our compressor rentals were for terms of six months or less which, if terminated or not renewed, would adversely impact our revenue and our ability to recover our initial equipment costs.

The length of our compressor rental agreements with our customers varies based on customer needs, equipment configurations and geographic area. In most cases, under currently prevailing rental rates, the initial rental periods are not long enough to enable us to fully recoup the average cost of acquiring or fabricating the equipment. We cannot be sure that a substantial number of our customers will continue to renew their rental agreements or that we will be able to re-rent the equipment to new customers or that any renewals or re-rentals will be at comparable rental rates. The inability to timely renew or re-rent a substantial portion of our compressor rental fleet would have a material adverse effect upon our business, financial condition, results of operations and cash flows.

We could be subject to substantial liability claims that could harm our financial condition.

Our products are used in production applications where an accident or a failure of a product can cause personal injury, loss of life, damage to property, equipment or the environment, or suspension of operations. While we maintain insurance coverage, we face the following risks under our insurance coverage:

- we may not be able to continue to obtain insurance on commercially reasonable terms;
- we may be faced with types of liabilities that will not be covered by our insurance, such as damages from significant product liabilities and from environmental contamination;
- the dollar amount of any liabilities may exceed our policy limits; and
- we do not maintain coverage against the risk of interruption of our business.

Any claims made under our policies will likely cause our premiums to increase. Any future damages caused by our products or services that are not covered by insurance, are in excess of policy limits or are subject to substantial deductibles, would reduce our earnings and our cash available for operations.

We might be unable to employ qualified technical personnel, which could hamper our present operations or increase our costs.

Many of the compressors that we sell or rent are mechanically complex and often must perform in harsh conditions. We believe that our success depends upon our ability to employ and retain a sufficient number of technical personnel who have the ability to design, utilize, enhance and maintain these compressors. Our ability to expand our operations depends in part on our ability to increase our skilled labor force. The demand for skilled workers is high, and supply is limited. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force or cause an increase in the wage rates that we must pay or both. If either of these events were to occur, our cost structure could increase and our operations and growth potential could be impaired.

We will require a substantial amount of capital to expand our compressor rental fleet and grow our business.

During 2016, the amount we will spend on capital expenditures related to rental compression equipment will be determined primarily by the activity of our customers. We do not anticipate demand for our products exceeding what we can fund with internally generated funds and bank borrowing with our current credit line. The amount and timing of any of these capital expenditures may vary depending on a variety of factors, including the level of activity in the oil and natural gas exploration and production industry and the presence of alternative uses for our capital, including any acquisitions that we may pursue.

Historically, we have funded our capital expenditures through cash flows from operations and borrowings under bank credit facilities. Although we believe that cash flows from our operations will provide us with sufficient cash to fund our planned capital expenditures for 2016, we cannot assure you that these sources will be sufficient. We may require additional capital to fund any unanticipated capital expenditures, including any acquisitions, and to fund our growth beyond 2016, and necessary capital may not be available to us when we need it or on acceptable terms. Our ability to raise additional capital will depend on the results of our operations and the status of various capital and industry markets at the time we seek such capital. Failure to generate sufficient cash flow, together with the absence of alternative sources of capital, could have a material adverse effect on our business, financial condition, results of operations or cash flow.

Of our \$30 million line of credit, we owe \$417,000 as of December 31, 2015. All outstanding principal and unpaid interest is due on December 31, 2017. Although we believe that we will be able to renew our existing line of credit, or obtain a new line of credit with another lender, we can provide no assurance that we will be successful in renewing our line of credit or obtaining a new line. In addition, any renewal of our existing line of credit or creation of a new line of credit may be on terms less favorable than our existing line. For instance, changes in the terms of a new line of credit may include, but not be limited to: a reduction in the borrowing amount, an increase in interest rate to be paid on borrowings under the line, or restrictive covenants that are more onerous than those on our existing line of credit.

We believe that the lender participating in our current credit agreement has adequate capital and resources. If our current lender were to encounter difficulties, it is possible that the borrowing capacity under our credit agreement would be reduced or eliminated. In the event that the availability under our credit agreement was reduced significantly, we could be required to obtain capital from alternate sources in order to finance our capital needs. Our options for addressing such capital constraints would include, but not be limited to (1) obtaining commitments from other banks to fund increased amounts under the terms of our credit agreement, (2) accessing the public capital markets, or (3) delaying certain projects. If it became necessary to access additional capital, any alternatives at the time may be on terms less favorable than under our existing credit agreement terms, which could have a material effect on our consolidated financial position, results of operations and cash flows. If future financing is not available to us when required, as a result of limited access to the credit markets or otherwise, or is not available to us on acceptable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, either of which could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

Our debt levels may negatively impact our current and future financial stability.

Should we utilize our full debt capacity, growth beyond that point could be impacted. As of December 31, 2015, we had an aggregate of approximately \$417,000 of outstanding indebtedness, and accounts payable, accrued expenses and current income tax liability of approximately \$4.3 million. As a result of our indebtedness at any given point in time, we might not have the ability to incur any substantial additional indebtedness. The level of our indebtedness could have several important effects on our future operations, including:

- our ability to obtain additional financing for working capital, acquisitions, capital expenditures and other purposes may be limited;
- a significant portion of our cash flow from operations may be dedicated to the payment of principal and interest on our debt, thereby reducing funds available for other purposes; and
- our leverage if increased to an unacceptable level, could make us more vulnerable to economic downturns.

If we are unable to service our debt, we will likely be forced to take remedial steps that are contrary to our business plan.

As of December 31, 2015, we had \$417,000 due under our Line of Credit agreement which allows us to borrow up to \$30.0 million provided we maintain certain collateral and borrowing base requirements. We believe that our current cash position and the amount available under the current revolver are sufficient to meet our capital needs through 2016. However, if we were to materially increase our borrowings, it is possible that our business will not generate sufficient cash flow from operations to

meet our debt service requirements and the payment of principal when due depending on the amount of borrowings on the agreement at any given time. If this were to occur, we may be forced to:

- sell assets at disadvantageous prices;
- obtain additional financing; or
- refinance all or a portion of our indebtedness on terms that may be less favorable to us.

Our current credit agreement contains covenants that limit our operating and financial flexibility and, if breached, could expose us to severe remedial provisions.

Under the terms of our credit agreement, we must:

- comply with a minimum leverage ratio;
- comply with a commitment coverage ratio;
- not exceed specified levels of debt; and
- comply with limits on asset sales.

Our ability to meet the financial ratios and tests under our credit agreement can be affected by events beyond our control, and we may not be able to satisfy those ratios and tests. A breach of any one of these covenants could permit the bank to accelerate the debt so that it is immediately due and payable. If a breach occurred, no further borrowings would be available under our credit agreement. If we were unable to repay the debt, the bank could proceed against and foreclose on our assets, substantially all of which have been pledged as collateral to secure payment of our indebtedness.

If we fail to acquire or successfully integrate additional businesses, our growth may be limited and our results of operations may suffer.

As part of our business strategy, we intend to evaluate potential acquisitions of other businesses or assets. However, there can be no assurance that we will be successful in consummating any such acquisitions. Successful acquisition of businesses or assets will depend on various factors, including, but not limited to, our ability to obtain financing and the competitive environment for acquisitions. In addition, we may not be able to successfully integrate any businesses or assets that we acquire in the future. The integration of acquired businesses is likely to be complex and time consuming and place a significant strain on management and may disrupt our business. We also may be adversely impacted by any unknown liabilities of acquired businesses, including environmental liabilities. We may encounter substantial difficulties, costs and delays involved in integrating common accounting, information and communication systems, operating procedures, internal controls and human resources practices, including incompatibility of business cultures and the loss of key employees and customers. These difficulties may reduce our ability to gain customers or retain existing customers, and may increase operating expenses, resulting in reduced revenues and income and a failure to realize the anticipated benefits of acquisitions.

The loss of one or more of our current customers could adversely affect our results of operations.

Our business is dependent not only on securing new customers but also on maintaining current customers. We had two customers that accounted for an aggregate of approximately 31% of our revenue for the year ended December 31, 2015, and two customers that accounted for an aggregate of approximately 33% of our revenue for the year ended December 31, 2014. At December 31, 2015, two customers accounted for an aggregate of 35% of our accounts receivable. 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. In addition, the default on payments by one or more of these significant customers may negatively impact our cash flow and current assets.

Loss of key members of our management could adversely affect our business.

In keeping with our streamlined approach to our business, our executive management team consists of three officers: our (i) Chief Executive Officer, (ii) Chief Financial Officer and (iii) Vice President of Technical Services. We depend on the continued employment and performance of these three key members of our executive management team. In particular, we are significantly reliant upon the leadership and guidance of Stephen C. Taylor, who has been our President, Chief Executive Officer and Board member since 2004. In addition to his management duties, Mr. Taylor has been instrumental in our communications and standing with the investment community. If any of our key executives resign or become unable to continue in his present role and is not adequately replaced, our business operations could be materially adversely affected. We do not carry any key-man insurance on any of our officers or directors.

Failure to effectively manage our growth and expansion could adversely affect our business and operating results and our internal controls.

We have significantly expanded our operations since our formation in 1998 and anticipate that our growth will continue if we are able to execute our strategy, subject to the supply and demand for oil and natural gas. Future growth may place significant strain on our management and other resources. To manage our future growth, we must be able to, among other things:

- accurately assess the number of additional officers and employees we will require and the areas in which they will be required;
- attract, hire and retain additional highly skilled and motivated officers and employees;
- train and manage our work force in a timely and effective manner;
- upgrade and expand our office infrastructure so that it is appropriate for our level of activity; and
- improve our financial and management controls, reporting systems and procedures.

Liability to customers under warranties and indemnification provisions may materially and adversely affect our earnings.

We provide warranties as to the proper operation and conformance to specifications of the equipment we manufacture. Our equipment is complex and often deployed in harsh environments. Failure of this equipment to operate properly or to meet specifications may increase our costs by requiring additional engineering resources and services, replacement of parts and equipment or monetary reimbursement to a customer. We have in the past received warranty claims and we expect to continue to receive them in the future. To the extent that we incur substantial warranty claims in any period, our reputation, our ability to obtain future business and our earnings could be materially and adversely affected.

Our rental and sales contracts provide for varying forms of indemnification from our customers and in most cases may require us to indemnify our customers. Under some of our rental and sales contracts, liability with respect to personnel and property is customarily assigned on a “knock-for-knock” basis, which means that we and our customers assume liability for our respective personnel and property. However, in certain rental and sales contracts we assume liability for damage to our customer’s property and other third-party on the site resulting from our negligence. Since our products are used in production applications in the energy industry, expenses and liabilities in connection with accidents involving our products and services could be extensive and may exceed our insurance coverages.

Failure to maintain effective internal controls could have a material adverse effect on our operations.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting. If we fail to maintain effective internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and to help prevent financial fraud. If, as a result of deficiencies in our internal controls, we cannot provide reliable financial reports or prevent fraud, our business decision process may be adversely affected, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the price of our stock could decrease as a result.

A reduction in demand primarily for natural gas or prices for this commodity and credit markets could adversely affect our business.

Our results of operations depend upon the level of activity in the energy market, including natural gas development, production, processing and transportation. Oil and natural gas prices and the level of drilling and exploration activity can be volatile. For example, oil and natural gas exploration and development activity and the number of well completions typically decline when there is a significant reduction in oil and natural gas prices or significant instability in energy markets. As a result, the demand for our natural gas compression services could be adversely affected. A reduction in demand could also force us to reduce our pricing substantially. Additionally, our customers' production from unconventional natural gas sources such as tight sands, shale and coal beds constitute the majority percentage of our business. Such unconventional sources are generally less economically feasible to produce in lower natural gas price environments. These factors could in turn negatively impact the demand for our products and services. A decline in demand for oil and natural gas or prices for those commodities and credit markets generally have a material adverse effect on our business, financial condition and results of operations.

The erosion of the financial condition of our customers could adversely affect our business.

Many of our customers finance their exploration and development activities through cash flow from operations, the incurrence of debt or the issuance of equity. During times when the oil or natural gas markets weaken, our customers are more likely to experience a downturn in their financial condition. Many of our customers' equity values substantially declined during the most recent fall in oil and natural gas prices, and in some cases access to capital markets may be an unreliable source of financing for some customers. The combination of a reduction in cash flow resulting from declines in commodity prices, a reduction in borrowing bases under reserve-based credit facilities and the lack of availability of debt or equity financing may result in flat or moderate growth in our customers' spending for our products and services in 2016. For example, our customers could seek to preserve capital by canceling month-to-month contracts, canceling or delaying scheduled maintenance of their existing natural gas compression equipment or determining not to enter into any new natural gas compression service contracts or purchase new compression equipment.

Risks Associated With Our Common Stock

The price of our common stock may fluctuate.

The trading price of our common stock and the price at which we may sell securities in the future are subject to substantial fluctuations in response to various factors, including our ability to successfully accomplish our business strategy, the trading volume of our stock, changes in governmental regulations, actual or anticipated variations in our quarterly or annual financial results, our involvement in litigation, general market conditions, the prices of oil and natural gas, announcements by us and our competitors, our liquidity, our ability to raise additional funds, and other events.

Future sales of our common stock could adversely affect our stock price.

Substantial sales of our common stock in the public market, or the perception by the market that those sales could occur, may lower our stock price or make it difficult for us to raise additional equity capital in the future. An aggregate of 22% of the outstanding shares of our common stock are owned by three institutional investors, each of which owns more than 5% of our outstanding shares as of March 2, 2016. Potential sales of large amounts of these shares in a short period of time by one or more of these significant investors could have a negative impact on our stock price. In addition, potential sales of our common stock by our directors and officers, who beneficially own approximately 7% of the outstanding shares of our common stock as of March 2, 2016, and because of the negative perception of sales by insiders, could also have a negative impact on our stock price.

We have a comparatively low number of shares of common stock outstanding and, therefore, our common stock may suffer from limited liquidity and its prices will likely be volatile and its value may be adversely affected.

Because of our relatively low number of outstanding shares of common stock, the trading price of our common stock will likely be subject to significant price fluctuations and limited liquidity. This may adversely affect the value of your investment. In addition, our common stock price could be subject to fluctuations in response to variations in quarterly operating results, changes in management, future announcements concerning us, general trends in the industry and other events or factors as well as those described above.

If we issue debt or equity securities, you may lose certain rights and be diluted.

If we raise funds in the future through the issuance of debt or equity securities, the securities issued may have rights and preferences and privileges senior to those of holders of our common stock, and the terms of the securities may impose restrictions on our operations or dilute your ownership in our Company.

If securities analysts downgrade our stock or cease coverage of us, the price of our stock could decline.

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. Furthermore, there are many large, well-established, publicly traded companies active in our industry and market, which may mean that it is less likely that we will receive widespread analyst coverage. If one or more of the analysts who do cover us downgrade our stock, our stock price would likely decline rapidly. If one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

We do not intend to pay, and have restrictions upon our ability to pay, dividends on our common stock.

We have not paid cash dividends in the past and do not intend to pay dividends on our common stock in the foreseeable future. Net income from our operations, if any, will be used for the development of our business, including capital expenditures, and to retire debt. In addition, our credit agreement contains restrictions on our ability to pay cash dividends on our common stock.

Provisions contained in our governing documents could hinder a change in control of us.

Our articles of incorporation and bylaws contain provisions that may discourage acquisition bids and may limit the price investors are willing to pay for our common stock. Our articles of incorporation and bylaws provide that:

- directors are elected for three-year terms, with approximately one-third of the board of directors standing for election each year;
- cumulative voting is not allowed, which limits the ability of minority shareholders to elect any directors;
- the unanimous vote of the board of directors or the affirmative vote of the holders of not less than 80% of the votes entitled to be cast by the holders of all shares entitled to vote in the election of directors is required to change the size of the board of directors; and
- directors may be removed only for cause and only by the holders of not less than 80% of the votes entitled to be cast on the matter.

Our Board of Directors has the authority to issue up to five million shares of preferred stock. The Board of Directors can fix the terms of the preferred stock without any action on the part of our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction. In addition, preferred stock could be used in connection with the Board of Directors' adoption of a shareholders' rights plan (also known as a poison pill), which would make it much more difficult to effect a change in control of our company through acquiring or controlling blocks of stock. Also, our directors and officers as a group will continue to beneficially own stock and although this is not a majority of our stock, it confers substantial voting power in the election of directors and management of our company. This would make it difficult for other minority stockholders to effect a change in control or otherwise extend any significant control over our management. This may adversely affect the market price and interfere with the voting and other rights of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The table below describes the material facilities owned or leased by Natural Gas Services Group as of December 31, 2015:

Location	Status	Square Feet	Uses
Tulsa, Oklahoma	Owned and Leased	91,780	Compressor fabrication, rental and services
Midland, Texas	Owned	70,000	Compressor fabrication, rental and services
Lewiston, Michigan	Owned	15,360	Compressor fabrication, rental and services
Midland, Texas	Leased	13,135	Corporate offices
Bloomfield, New Mexico	Owned	7,000	Office and parts and services
Bridgeport, Texas	Leased	4,500	Office and parts and services
Midland, Texas	Owned	4,100	Parts and services
Godley, Texas	Leased	5,000	Parts and services
Vernal, Utah	Leased	3,200	Parts and services
Carrollton, Ohio	Leased	2,600	Parts and services
Loveland, Colorado	Leased	2,400	Parts and services
Wheeler, Texas	Leased	2,160	Parts and services
Grapevine, Texas	Leased	800	Sales
Total		<u>222,035</u>	

We believe that our properties are generally well maintained and in good condition and adequate for our purposes.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are a party to various legal proceedings in the ordinary course of our business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from these actions will not have a material effect on our financial position, results of operations or cash flow. We are not currently a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding, and we are not aware of any threatened litigation.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

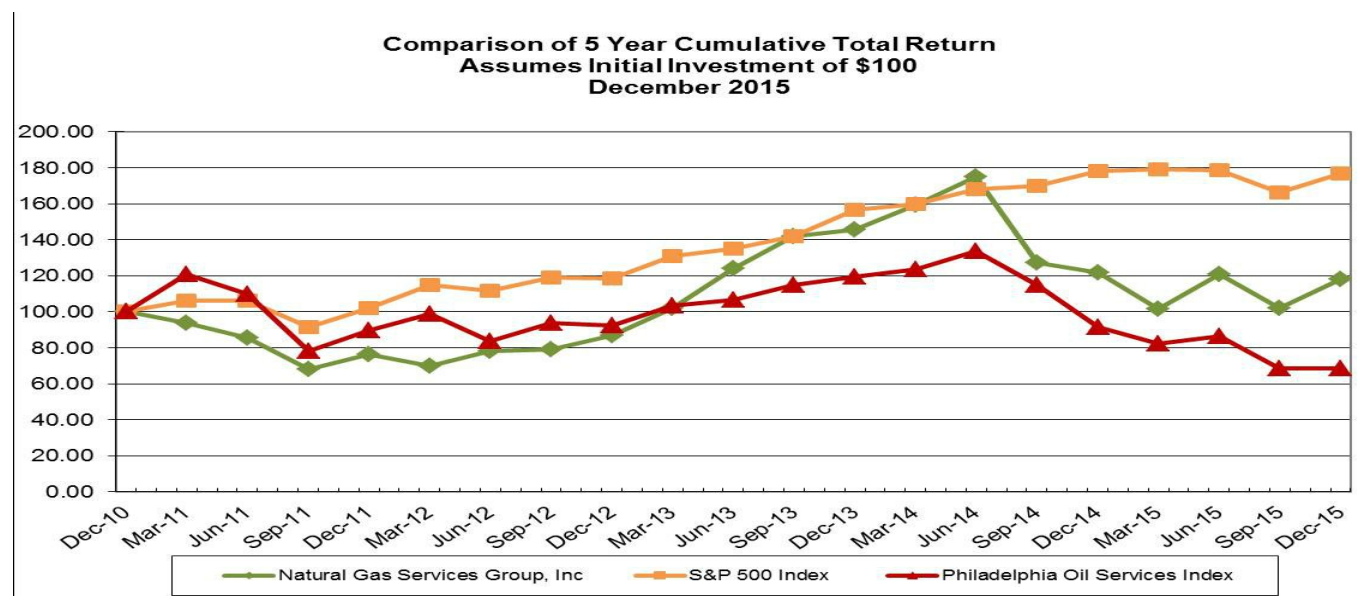
ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock currently trades on the New York Stock Exchange under the symbol “NGS”. The following table sets forth for the periods indicated the high and low sales prices for our common stock as reported for 2015 and 2014.

2015	Low	High
First Quarter	\$17.97	\$22.99
Second Quarter	20.09	25.57
Third Quarter	18.78	22.39
Fourth Quarter	18.74	23.98
2014	Low	High
First Quarter	\$26.19	\$34.81
Second Quarter	28.90	34.69
Third Quarter	23.80	33.36
Fourth Quarter	21.23	26.75

As of December 31, 2015 as reflected by our transfer agent records, we had 16 record holders of our common stock. This number does not include any beneficial owners for whom shares of common stock may be held in “nominee” or “street” name. On March 7, 2016, the last reported sale price of our common stock as reported by the New York Stock Exchange was \$19.50 per share.

The following graph shows a five year comparison of the cumulative total stockholder return on Natural Gas Services Group common stock as compared to the cumulative total return of two other indexes: a custom composite index of the Philadelphia Oil Service Index and the Standard & Poor’s 500 Composite Stock Price Index. These comparisons assume an initial investment of \$100 and the reinvestment of dividends.



The performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference the Annual Report on Form 10-K into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those Acts.

Dividends

To date, we have not declared or paid any dividends on our common stock. We currently do not anticipate paying any cash dividends in the foreseeable future on our common stock. Although we intend to retain our earnings, if any, to finance the growth of our business, our Board of Directors will have the discretion to declare and pay dividends in the future. Payment of dividends in the future will depend upon our earnings, capital requirements, and other factors, which our Board of Directors may deem relevant. Our credit agreement also contains restrictions on our paying dividends.

Equity Compensation Plans

The following table summarizes certain information regarding our equity compensation plans as of December 31, 2015:

Plan Category	(a) Number of Securities Issued or to be Issued Upon Exercise of Outstanding Options	(b) Weighted- average Issuance or Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders:			
Stock Option Plan	414,769 ⁽¹⁾	\$ 19.07	93,419
Restricted Stock / Unit Plan	145,558	\$ 19.17	361,394
Total	<u>560,327</u>		<u>454,813</u>

(1) Total number of shares to be issued upon exercise of options granted to employees, officers, and directors under our 1998 Stock Option Plan.

Repurchase of Equity Securities

No repurchases of our securities were made by us or on our behalf by any “affiliated purchaser” during the year ended December 31, 2015.

Sale of Unregistered Securities

We made no sales of unregistered securities during the year ended December 31, 2015.

ITEM 6. SELECTED FINANCIAL DATA

In the table below, we provide you with selected historical financial data. We have derived this information from our audited financial statements for each of the years in the five-year period ended December 31, 2015. This information is only a summary and it is important that you read this information along with our audited financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under Item 7 below, which discusses factors affecting the comparability of the information presented. The selected financial information provided is not necessarily indicative of our future results of operations or financial performance.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	<i>(in thousands, except per share amounts)</i>				
STATEMENTS OF INCOME AND OTHER INFORMATION:					
Revenues	\$ 95,919	\$ 96,974	\$ 89,248	\$ 93,722	\$ 65,158
Costs of revenues, exclusive of depreciation and amortization shown separately below	42,655	43,147	40,943	49,907	30,394
Gross margin ⁽¹⁾	53,264	53,827	48,305	43,815	34,764
Loss on retirement of rental equipment	4,370	—	—	—	—
Depreciation and amortization	22,758	21,507	18,144	15,707	13,994
Selling, general and administrative expenses	10,989	10,334	8,141	7,893	5,910
Operating income	15,147	21,986	22,020	20,215	14,860
Total other income (expense), net	117	172	492	(4)	769
Income before income taxes	15,264	22,158	22,512	20,211	15,629
Income tax expense	5,117	8,030	8,122	7,526	5,869
Net income	\$ 10,147	\$ 14,128	\$ 14,390	\$ 12,685	\$ 9,760
Net income per common share:					
Basic	\$ 0.81	\$ 1.14	\$ 1.17	\$ 1.04	\$ 0.80
Diluted	\$ 0.79	\$ 1.11	\$ 1.15	\$ 1.03	\$ 0.80
Weighted average shares of common stock outstanding:					
Basic	12,567	12,434	12,324	12,220	12,148
Diluted	12,793	12,721	12,550	12,320	12,250
Adjusted EBITDA ⁽²⁾	\$ 42,407	\$ 43,675	\$ 40,712	\$ 35,936	\$ 29,678
Cash flows from:					
Operating Activities	\$ 41,611	\$ 34,564	\$ 39,244	\$ 35,418	\$ 33,623
Investing Activities	(12,315)	(53,102)	(43,324)	(23,761)	(35,506)
Financing Activities	55	276	437	39	(864)
Net change in cash and cash equivalents	\$ 29,351	\$ (18,262)	\$ (3,643)	\$ 11,696	\$ (2,747)

	As of December 31,				
	2015	2014	2013	2012	2011
	<i>(in thousands)</i>				
BALANCE SHEET INFORMATION:					
Current assets	\$ 73,204	\$ 55,076	\$ 60,645	\$ 62,036	\$ 49,503
Total assets	285,553	282,712	256,589	232,751	212,164
Long-term debt (including current portion)	417	417	577	897	1,017
Stockholders’ equity	223,981	210,587	192,737	175,825	161,542

(1) Gross margin is defined, reconciled to net income and discussed immediately below under “-- Non-GAAP Financial Measures”.

(2) Adjusted EBITDA is defined, reconciled to net income and discussed immediately below under “-- Non-GAAP Financial Measures”.

Non-GAAP Financial Measures

Our definition and use of Adjusted EBITDA

“Adjusted EBITDA” is a non-GAAP financial measure that we define as earnings (net income) from operations before interest, taxes, loss on retirement of rental equipment, depreciation and amortization. This term, as used and defined by us, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with GAAP. Adjusted EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP. However, management believes Adjusted EBITDA is useful to an investor in evaluating our operating performance because:

- it is widely used by investors in the energy industry to measure a company’s operating performance without regard to items excluded from the calculation of Adjusted EBITDA, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired, among other factors;
- it helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure and asset base from our operating structure; and
- it is used by our management for various purposes, including as a measure of operating performance, in presentations to our Board of Directors, as a basis for strategic planning and forecasting, and as a component for setting incentive compensation.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under generally accepted accounting principles. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the cash requirements necessary to service interest or principal payments on our debts; and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

There are other material limitations to using Adjusted EBITDA as a measure of performance, including the inability to analyze the impact of certain recurring items that materially affect our net income or loss, and the lack of comparability of results of operations of different companies. Please read the table below under “Reconciliation” to see how Adjusted EBITDA reconciles to our net income, the most directly comparable GAAP financial measure.

Definition and use of gross margin

We define gross margin as total revenue less costs of revenues (excluding depreciation and amortization expense). Gross margin is included as a supplemental disclosure because it is a primary measure used by our management as it represents the results of revenue and costs (excluding depreciation and amortization expense), which are key components of our operations. Gross margin differs from gross profit, in that gross profit includes depreciation expense. We believe gross margin is important because it focuses on the current operating performance of our operations and excludes the impact of the prior historical costs of the assets acquired or constructed that are utilized in those operations, the indirect costs associated with our selling, general and administrative activities, the impact of our financing methods and income taxes. Depreciation expense does not accurately reflect the costs required to maintain and replenish the operational usage of our assets and therefore may not portray the costs from current operating activity. Rather, depreciation expense reflects the systematic allocation of historical property and equipment values over the estimated useful lives.

Gross margin has certain material limitations associated with its use as compared to net income. These limitations are primarily due to the exclusion of certain expenses. Each of these excluded expenses is material to our results of operations. Because we use capital assets, depreciation expense is a necessary element of our costs and our ability to generate revenue and selling, general and administrative expense is a necessary cost to support our operations and required corporate activities. In order to compensate for these limitations, management uses this non-GAAP measure as a supplemental measure to other GAAP results to provide a more complete understanding of our performance.

As an indicator of our operating performance, gross margin should not be considered an alternative to, or more meaningful than, net income as determined in accordance with GAAP. Our gross margin may not be comparable to a similarly titled measure of another company because other entities may not calculate gross margin in the same manner.

Reconciliation

The following table reconciles Adjusted EBITDA and gross margin to our net income, the most directly comparable GAAP financial measure:

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	<i>(in thousands)</i>				
Net Income	\$ 10,147	\$ 14,128	\$ 14,390	\$ 12,685	\$ 9,760
Interest expense	15	10	56	18	55
Income taxes	5,117	8,030	8,122	7,526	5,869
Loss on retirement of rental equipment	4,370	—	—	—	—
Depreciation and amortization	22,758	21,507	18,144	15,707	13,994
Adjusted EBITDA	42,407	43,675	40,712	35,936	29,678
Selling, general and administrative expenses	10,989	10,334	8,141	7,893	5,910
Other income, net	(132)	(182)	(548)	(14)	(824)
Gross Margin	<u>\$ 53,264</u>	<u>\$ 53,827</u>	<u>\$ 48,305</u>	<u>\$ 43,815</u>	<u>\$ 34,764</u>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist you in understanding our financial position and results of operations for each of the years ended December 31, 2015, 2014 and 2013. You should read the following discussion and analysis in conjunction with our audited financial statements and the related notes.

The following discussion contains forward-looking statements. For a description of limitations inherent in forward-looking statements, see "Special Note Regarding Forward-Looking Statements" on page ii.

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 include maintenance charges and are paid monthly in advance. As of December 31, 2015, we had 1,818 natural gas compressors totaling 256,204 horsepower rented to 84 customers, compared to 2,189 natural gas compressors totaling 301,392 horsepower rented to 102 customers at December 31, 2014. Of the 1,818 compressors rented at December 31, 2015, 833 were rented on a month-to-month basis.

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. These 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 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 non-rental customers under written maintenance contracts or on an as required basis in the absence of a service contract. Maintenance agreements typically have terms of six months to one year and require payment of a monthly fee.

The following table sets forth our revenues from each of our three operating categories for the periods presented:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Rental	\$ 76,432	\$ 78,983	\$ 69,062
Sales	18,519	17,200	19,479
Service and maintenance	968	791	707
Total	<u>\$ 95,919</u>	<u>\$ 96,974</u>	<u>\$ 89,248</u>

Our strategy for growth is focused on our compressor rental business. Margins, exclusive of depreciation and amortization, for our rental business historically run in the high 50% to low 60% range, while margins for the compressor sales business tend to be in the mid 20% range. If our rental business grows and contributes a larger percentage of our total revenues, we expect our overall company-wide margins to improve over time.

The oil and natural gas equipment rental and services industry is cyclical in nature. The most critical factor in assessing the outlook for the industry is the worldwide supply and demand for natural gas and oil and the corresponding changes in commodity prices. As demand and prices increase, oil and natural gas producers increase their capital expenditures for drilling, development and production activities. Generally, the increased capital expenditures ultimately result in greater revenues and profits for service 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 coal bed methane, gas shale and tight gas, which typically requires more compression than production from conventional natural gas reservoirs.

Demand for our products and services was strong throughout most of 2008, but in 2009 the demand declined due to lower natural gas prices, decreased demand for natural gas and the economic recession. During 2010, the economy began to recover from a global recession and demand for our products began to strengthen. This recovery continued through most of 2014 due to increasing oil prices, in spite of continued low natural gas prices. Towards the end of 2014 and throughout 2015, crude oil prices collapsed, placing uncertainty on the growth in demand for our products and services.

For fiscal year 2016, our forecasted capital expenditures will be directly dependent upon our customers' compression requirements and are not anticipated to exceed our internally generated cash flows. Any required capital will be for additions to our compressor rental fleet and/or addition or replacement of service vehicles. We believe that cash flows from operations will be sufficient to satisfy our capital and liquidity requirements through 2016. We may require additional capital to fund any unanticipated expenditures, including any acquisitions of other businesses, joint ventures or other opportunities, although that capital may not be available to us when we need it or on acceptable terms.

Notwithstanding the continued uncertain economy and low energy price environment, we believe the long-term trend in our market is favorable.

Critical Accounting Policies and Practices

We have identified the policies below as critical to our business operations and the understanding of our results of operations. In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Our critical accounting policies are as follows:

- revenue recognition;
- estimating the allowance for doubtful accounts receivable;
- accounting for income taxes;
- valuation of long-lived and intangible assets and goodwill; and
- valuation of inventory.

Revenue Recognition

Revenue from the sales of custom and fabricated compressors and flare systems is recognized when title passes to the customer, the customer assumes risks and rewards of ownership, collectability is reasonably assured and delivery occurs as directed by our customer. However, in certain circumstances customers request a bill and hold arrangement, in which case sales revenue is recognized before delivery occurs. Under these bill and hold arrangements, the compressor or flare is available for shipment, the Company has fulfilled all of its pre-delivery performance obligations and the customer has completed and signed a bill and hold agreement. Revenue from sale of rental units is included in sales revenue when equipment is shipped or 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. Deferred income represents payments received before a product is shipped.

Allowance for Doubtful Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. At December 31, 2015, two customers accounted for approximately 25% and 10% of our accounts receivable, and at December 31, 2014, three customers accounted for approximately 20%, 18% and 14% of our accounts receivable. A significant change in the liquidity or financial position of these customers could have a material adverse impact on the collectability of our accounts receivables and our future operating results. At December 31, 2015 and 2014, our allowance for doubtful accounts balance was \$833,000 and \$507,000, respectively.

Accounting for Income Taxes

As part of the process of preparing our financial statements, we are required to estimate our federal income taxes as well as income taxes in each of the states in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not probable, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense in the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We currently have no valuation allowance and fully expect to utilize all of our deferred tax assets.

Valuation of Long-Lived and Intangible Assets and Goodwill

We assess the impairment of identifiable intangibles, long-lived assets and related goodwill annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends; and
- significant decline in the market value of our stock.

When we determine that the carrying value of intangibles, long-lived assets and related goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

We completed a review of goodwill for impairment during the fourth quarter of 2015 under the guidance of Accounting Standards Update 2012-02, Intangibles--Goodwill and Other (Topic 350): Testing Indefinite-lived Intangibles for Impairment (ASU 2012-02). Our analysis considered multiple qualitative factors to determine whether events and circumstances indicate that we more than likely than not experienced impairment to the stated value of goodwill. Our assessment included a review of changes in key company financial metrics, stock performance and other measures that are important to the company's success. The other measure included demand for our products and services, maintenance of customers and cost of producing our product. Based on the analysis we concluded that it is more likely than not that we have not incurred impairment and are not required to take further action. As a result, no impairment of goodwill was recorded in the year ending at December 31, 2015. Future impairment tests could result in impairments of our intangible assets or goodwill.

Inventories

We value our inventory at the lower of the actual cost to purchase and/or manufacture the inventory or the current estimated market value of the inventory. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements. At December 31, 2015, an adjustment to the allowance of \$418,000 was made to remove obsolete inventory and bring inventory to current estimated market value, which represents 1.5% of inventory. This adjustment was the result of our obsolescence review which is conducted each year. We ended 2015 with an inventory allowance balance of \$12,000.

Our Performance Trends and Outlook

Given the current economic environment in North America and anticipated impact of continued low natural gas and oil prices and potentially cautious capital spending by customers, we expect the overall activity levels to be lower in 2016. Currently, we believe that weak commodity prices will continue throughout 2016. In addition, credit and capital markets will show signs of stress resulting from the weakness of commodity prices and will impact the level of capital spending by our customers in the near term. We believe that the recovery from the recent market uncertainty will continue to be slow. The result will likely be lagging capital spending by our customers and therefore slow growth in demand for our products and services and price pressure from competitors. We anticipate industry capital spending will be greatly decreased in 2016 compared to 2015 levels, and we believe our fabrication business will likely reflect this in our production level through 2016. We believe our rental operations business will also be down moderately.

Results of Operations

Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

The table below shows our revenues, percentage of total revenues, gross margin, exclusive of depreciation and amortization, and gross margin percentage of each of our operating units for the years ended December 31, 2015 and December 31, 2014. Gross margin is the difference between revenue and cost of revenues, exclusive of depreciation and amortization expense.

	Revenue				Gross Margin, Exclusive of Depreciation and Amortization (1)			
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014	2015	2014	2015	2014
	<i>(dollars in thousands)</i>							
Rental	\$ 76,432	79.7%	\$ 78,983	81.5%	\$ 47,682	62.4%	\$ 47,461	60.1%
Sales	18,519	19.3%	17,200	17.7%	4,886	26.4%	5,903	34.3%
Service & Maintenance	968	1.0%	791	0.8%	696	71.9%	463	58.5%
Total	<u>\$ 95,919</u>		<u>\$ 96,974</u>		<u>\$ 53,264</u>	55.5%	<u>\$ 53,827</u>	55.5%

- (1) For a reconciliation of gross margin to its most directly comparable financial measure calculated and presented in accordance with GAAP, please read “Item 6. Selected Financial Data – Non-GAAP Financial Measures” in this Report.

Total revenue decreased to \$95.9 million from \$97.0 million, or 1.1%, for the year ended December 31, 2015, compared to 2014. This was the result of a 3.2% decrease in rental revenue offset by a 7.7% increase in sales revenue and a 22.4% increase in service and maintenance revenue.

Rental revenue decreased to \$76.4 million from \$79.0 million, or 3.2%, for the year ended December 31, 2015, compared to 2014. This decrease is due to reduced demand from the drop in oil and natural prices resulting in units being returned. As of December 31, 2015, we had 2,622 natural gas compressors in our rental fleet totaling 372,482 horsepower, as compared to 2,879 natural gas compressors totaling 401,361 horsepower as of December 31, 2014. As of December 31, 2015, we had 1,818 natural gas compressors totaling 256,204 horsepower rented to 84 customers, compared to 2,189 natural gas compressors totaling 301,392 horsepower rented to 102 customers as of December 31, 2014. The rental fleet had a utilization of 69.3% as of December 31, 2015 as compared to 76.0% at year end 2014.

Sales revenue increased to \$18.5 million from \$17.2 million, or 7.7%, for the year ended December 31, 2015, compared to 2014. Our normal sales activity continues to reflect demand from our customers' continued investment in non-conventional shale plays which require compression for produced natural gas. The price of natural gas on December 31, 2015 was \$2.28/MMBtu, down from \$3.14/MMBtu one year ago. The price of natural gas remains at levels that are considered depressed. Because of lagging natural gas prices, along with economic uncertainty and continued tight credit markets, the energy industry continues to encounter reduced capital spending, particularly for goods and services with respect to natural gas activities. During 2015, capital project funding continued to shift from gas projects to oil projects as the price of oil in early 2015 was not as volatile as gas, and many companies had locked in oil prices in support of those projects. Since our compressors are increasingly used in the production of oil and natural gas from shale plays which are driven by oil economics and typically by hedged prices, we have been able to increase our sales. Our strategy over time has been to increase our rental revenues so that they are a larger component of total revenue, but we intend to maintain our ability to build and sell custom fabricated equipment. In support of this, we have and will continue to cultivate new sales oriented customers and are actively pursuing small, medium and large reciprocating compressors as well as rotary screw-type equipment of any size. Sales include: (1) compressor unit sales, (2) flare sales, (3) parts sales and (4) compressor rebuilds.

The overall gross margin percentage remained steady at 55.5% for the twelve months ended December 31, 2015 and December 31, 2014, exclusive of depreciation and amortization. Our ability to remain flat in today's market is the result of the relatively higher margin rentals comprising a larger share of total revenue. Rental margins increased for the year ended December 31, 2015 compared to 2014 to 62.4% from 60.1%. Sales margin decreased to 26.4% from 34.3% for the year ended 2015 compared to 2014. Third party service and maintenance margins increased to 71.9% from 58.5% for the year ended December 31, 2015 compared to 2014. Service and maintenance represents 1% of our revenue providing minimal impact on our overall gross margin.

As a result of a decline in market conditions, management reviewed our rental compressor units and determined that 258 units should be retired, with certain key components being re-utilized, representing total horsepower of 32,259. Based on this optimization review, at June 30, 2015 we recorded a \$4.4 million non-cash loss on the retirement of rental equipment to reduce the book value to approximately \$967,000, the estimated fair value of the key components being kept.

Selling, general, and administrative expenses increased to \$11.0 million for the year ended December 31, 2015, as compared to \$10.3 million for 2014. This 6.3% increase is primarily due to our need to maintain consistent staffing levels, salary increases for existing staff (\$180,000) and non-cash expenses related to stock compensation (\$300,000).

Depreciation and amortization expense increased to \$22.8 million from \$21.5 million, or 5.8%, for the year ended December 31, 2015, compared to 2014. This increase was the net result of 52 new gas compressor rental units being added to the rental fleet in 2015, which increased the depreciable base and a full year's of depreciation realized from the 323 rental units added in 2014.

Provision for income tax decreased to \$5.1 million from \$8.0 million, or 36.3%, and is the result of the decrease in pre-tax income and effective tax rate. Our effective tax rate was 33.5% for 2015 and 36.2% for 2014.

Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

The table below shows our revenues, percentage of total revenues, gross margin, exclusive of depreciation and amortization, and gross margin percentage of each of our operating units for the years ended December 31, 2014 and December 31, 2013. Gross margin is the difference between revenue and cost of sales, exclusive of depreciation and amortization expense.

	Revenue				Gross Margin, Exclusive of Depreciation and Amortization (1)			
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013	2014	2013	2014	2013
	<i>(dollars in thousands)</i>							
Rental	\$ 78,983	81.5%	\$ 69,062	77.4%	\$ 47,461	60.1%	\$ 40,045	58.0%
Sales	17,200	17.7%	19,479	21.8%	5,903	34.3%	7,897	40.5%
Service & Maintenance	791	0.8%	707	0.8%	463	58.5%	363	51.3%
Total	<u>\$ 96,974</u>		<u>\$ 89,248</u>		<u>\$ 53,827</u>	55.5%	<u>\$ 48,305</u>	54.1%

- (1) For a reconciliation of gross margin to its most directly comparable financial measure calculated and presented in accordance with GAAP, please read "Item 6. Selected Financial Data – Non-GAAP Financial Measures" in this Report.

Total revenue increased to \$97.0 million from \$89.2 million, or 8.7%, for the year ended December 31, 2014, compared to 2013. This was the result of a 11.7% decrease in sales revenue offset by a 14.4% increase in rental revenue and a 11.9% increase in service and maintenance revenue.

Rental revenue increased to \$79.0 million from \$69.1 million, or 14.4%, for the year ended December 31, 2014, compared to 2013. This increase was the result of improved rental pricing of our units and our ability to place additional units in service. As of December 31, 2014, we had 2,879 natural gas compressors in our rental fleet totaling 401,361 horsepower, as compared to 2,556 natural gas compressors totaling 351,187 horsepower at December 31, 2013. As of December 31, 2014, we had 2,189 natural gas compressors totaling 301,392 horsepower rented to 102 customers, compared to 2,038 natural gas compressors totaling 283,165 horsepower rented to 95 customers at December 31, 2013. The rental fleet had a utilization of 76.0% as of December 31, 2014 as compared to 79.7% at year end 2013.

Sales revenue decreased to \$17.2 million from \$19.5 million, or 11.7%, for the year ended December 31, 2014, compared to 2013. Our normal sales activity continues to reflect demand from our customers' continued investment in non-conventional shale plays which require compression for produced natural gas. The price of natural gas on December 31, 2014 was \$3.14/MMBtu, down from \$4.31/MMBtu at December 31, 2013. The price of natural gas remains at levels that are considered depressed. Because of lagging natural gas prices, along with economic uncertainty and continued tight credit markets, the energy industry continues to encounter reduced capital spending, particularly for goods and services with respect to natural gas activities. This has caused capital project funding to shift from gas projects to oil projects as the price of oil was not as volatile as gas, and oil prices have rebounded from its lows compared to natural gas prices. Since our compressors are increasingly used in the production of natural gas from shale plays which are driven by oil economics, we have been able to increase our sales. Our strategy over time has been

to increase our rental revenues so that they are a larger component of total revenue, but we intend to maintain our ability to build and sell custom fabricated equipment. In support of this, we have continued to cultivate new sales-oriented customers and are entertaining requests for bids on larger reciprocating compressors instead of being solely focused on screw-type equipment. Sales included: (1) compressor unit sales, (2) flare sales, (3) parts sales and (4) compressor rebuilds.

The overall gross margin percentage increased to 55.5% for the twelve months ended December 31, 2014, from 54.1% for the same period ended December 31, 2013, exclusive of depreciation and amortization. This increase is the result of the relatively higher margin rentals comprising a larger share of total revenue. Rental revenue increased by 14.4% while sales revenue declined. Rental margins increased for the year ended December 31, 2014 compared to 2013 from 58.0% to 60.1%. Sales margin decreased to 34.3% from 40.5% for the year ended 2014 compared to 2013. Third party service and maintenance margins increased to 58.5% from 51.3% for the year ended December 31, 2014 compared to 2013. Service and maintenance represents less than 1% of our revenue providing minimal impact on our overall gross margin.

Selling, general, and administrative expense increased to \$10.3 million for the year ended December 31, 2014, as compared to \$8.1 million for 2013. This 26.9% increase is primarily due to our need to maintain consistent staffing levels, salary increases for existing staff (\$243,000) and non-cash expenses related to stock compensation (\$1.5 million).

Depreciation and amortization expense increased to \$21.5 million from \$18.1 million, or 18.5%, for the year ended December 31, 2014, compared to 2013. This increase was the net result of 323 new gas compressor rental units being added to the rental fleet in 2014, thus increasing the depreciable base.

Provision for income tax decreased to \$8.0 million from \$8.1 million, or 1.1%, and is the result of the decrease in taxable income. Our effective tax rate was 36.2% for 2014 and 36.1% for 2013.

Liquidity and Capital Resources

Our working capital positions as of December 31, 2015 and 2014 are set forth below.

	2015	2014
	<i>(in thousands)</i>	
Current Assets:		
Cash and cash equivalents	\$ 35,532	\$ 6,181
Trade accounts receivable, net	9,107	10,408
Inventory, net	27,722	32,624
Prepaid income taxes	81	5,391
Prepaid expenses and other	762	472
Total current assets	<u>73,204</u>	<u>55,076</u>
Current Liabilities:		
Accounts payable	1,226	4,990
Accrued liabilities	3,071	6,624
Deferred income	271	1,635
Total current liabilities	<u>4,568</u>	<u>13,249</u>
Net working capital	<u>\$ 68,636</u>	<u>\$ 41,827</u>

Historically, we have funded our operations through cash flows from operations and borrowings under bank credit facilities. Proceeds of financings have been primarily used to repay debt, to fund the manufacture and fabrication of additional units for our rental fleet of natural gas compressors and for acquisitions. In recent years, we have primarily funded our operations through cash flow from operations and, to a lesser extent, borrowings under our bank line of credit, which is described below. For the year ended December 31, 2015, we invested approximately \$12.5 million in equipment for our rental fleet and service vehicles. We financed this activity with funds from operations.

Cash flows

At December 31, 2015, we had cash and cash equivalents of \$35.5 million and working capital of \$68.6 million, and total debt of \$417,000 under our credit agreement, all which is due in 2017. Our cash and cash equivalents increased from 2014 due to a decrease in our capital program which was the result of a decrease in compressor rentals due to the decrease in oil and natural gas prices. We had positive net cash flow from operating activities of approximately \$41.6 million during 2015. This was primarily from net income of \$10.1 million and non-cash items of depreciation and amortization of \$22.8 million, \$3.5 million related to stock-based compensation, a loss on retirement of rental fleet of \$4.4 million, a decrease in deferred income taxes of \$1.8 million and an increase in working capital of \$2.6 million.

At December 31, 2014, we had cash and cash equivalents of \$6.2 million, working capital of \$41.8 million and total debt of \$417,000, under our line of credit, all which is due in 2017. Our cash and cash equivalent decreased from 2013 due to an increase in demand from our customers for additional rental compression. We had positive net cash flow from operating activities of approximately \$34.6 million during 2014. This was primarily from net income of \$14.1 million plus depreciation and amortization of \$21.5 million.

Raw materials and work in progress and finished goods inventory decreased to \$27.7 million as of the end of 2015, as compared to \$32.6 million as of the end of 2014. This decrease is mainly a reflection of inventory management activity and the timing of jobs closing from work in progress to finished goods.

Contractual Obligations and Commitments

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

Cash Contractual Obligations	2016	2017	2018	2019	Thereafter	Total
Line of credit	\$ —	\$ 417	\$ —	\$ —	\$ —	\$ 417
Interest on line of credit	17	17	—	—	—	34
Purchase obligations	400	400	400	400	466	2,066
Other long term liabilities	—	—	—	—	129	129
Facilities and office leases	383	407	275	59	—	1,124
Total	\$ 800	\$ 1,241	\$ 675	\$ 459	\$ 595	\$ 3,770

Senior Bank Borrowings

On November 19, 2014, we amended and renewed our \$30 million Credit Agreement with JP Morgan Chase Bank, N.A. ("the Amended Credit Agreement"). The Amended Credit Agreement was extended to December 31, 2017, and the interest rate terms were amended. We also have a right to request from the lender, on an uncommitted basis, an increase of up to \$20 million on the aggregate commitment (which could potentially increase the commitment amount to \$50 million). As of December 31, 2015, we owed \$417,000 on the line of credit under the Credit Agreement.

Borrowing Base. At any time before the maturity of the Amended Credit Agreement, we may draw, repay and re-borrow amounts available under the borrowing base up to the maximum aggregate availability discussed above. Generally, the borrowing base equals the sum of (a) 80% of our eligible accounts receivable plus (b) 50% of the book value of our eligible general inventory (not to exceed 50% of the commitment amount at the time) plus (c) 75% of the book value of our eligible equipment inventory. JPMorgan Chase Bank (the "Lender") may adjust the borrowing base components if material deviations in the collateral are discovered in future audits of the collateral.

Interest and Fees. Under the terms of the Amended Credit Agreement, we have the option of selecting the applicable variable rate for each revolving loan, or portion thereof, of either (a) LIBOR multiplied by the Statutory Reserve Rate (as defined in the Amended Credit Agreement), with respect to this rate, for Eurocurrency funding, plus the Applicable Margin ("LIBOR-based"), or (b) CB Floating Rate, which is the Lender's Prime Rate less the Applicable Margin; provided, however, that no more than three LIBOR-based borrowings under the agreement may be outstanding at any one time. For purposes of the LIBOR-based interest rate, the Applicable Margin is 1.50%. For purposes of the CB Floating Rate, the Applicable Margin is 1.25%. Accrued interest is payable monthly on outstanding principal amounts, provided that accrued interest on LIBOR-based loans is payable at the end of

each interest period, but in no event less frequently than quarterly. In addition, fees and expenses are payable in connection with our requests for letters of credit (generally equal to the Applicable Margin for LIBOR-related borrowings multiplied by the face amount of the requested letter of credit) and administrative and legal costs.

Maturity. The maturity date of the Amended Credit Agreement is December 31, 2017, at which time all amounts borrowed under the agreement will be due and outstanding letters of credit must be cash collateralized. The agreement may be terminated early upon our request or the occurrence of an event of default.

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

Covenants. The Amended Credit Agreement contains customary representations and warranties, as well as covenants which, among other things, limit our ability to incur additional indebtedness and liens; enter into transactions with affiliates; make acquisitions in excess of certain amounts; pay dividends; redeem or repurchase capital stock or senior notes; make investments or loans; make negative pledges; consolidate, merge or effect asset sales; or change the nature of our business.

Events of Default and Acceleration. The Amended Credit Agreement contains customary events of default for credit facilities of this size and type, and includes, without limitation, payment defaults; defaults in performance of covenants or other agreements contained in the transaction documents; inaccuracies in representations and warranties; certain defaults, termination events or similar events; certain defaults with respect to any other Company indebtedness in excess of \$50,000; certain bankruptcy or insolvency events; the rendering of certain judgments in excess of \$150,000; certain ERISA events; certain change in control events and the defectiveness of any liens under the secured revolving credit agreement. Obligations under the Amended Credit Agreement may be accelerated upon the occurrence of an event of default.

As of December 31, 2015, we were in compliance with all covenants in our Amended Credit Agreement. A default under our Amended Credit Agreement 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.

Components of Our Principal Capital Expenditures

Capital expenditures for the three years ended December 31, 2015:

Expenditure Category	2015	2014	2013
	<i>(in thousands)</i>		
Rental equipment, vehicles and shop equipment	\$ 12,504	\$ 53,342	\$ 43,419

The level of our expenditures will vary in future periods depending on energy market conditions and other related economic factors. Based upon existing economic and market conditions, we believe that our operating cash flow and additional bank borrowings are adequate to fully fund our net capital expenditures requirements for 2016. We also believe we have significant flexibility with respect to our financing alternatives and adjustment of our expenditure plans if circumstances warrant. When considered in relation to our total financial capacity, we do not have any material continuing commitments associated with expenditure plans related to our current operations can be met.

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 December 31, 2015, the off-balance sheet arrangements and transactions that we have entered into include operating lease agreements and purchase agreements. We do not believe that these arrangements are reasonably likely to materially affect our liquidity or availability of, or requirements for, capital resources.

We entered into a purchase agreement with a vendor in July 2008 pursuant to which we agreed to purchase up to \$4.8 million of our paint and coating requirements exclusively from the vendor. In connection with the execution of the agreement, the vendor paid us a \$300,000 fee which is considered to be a discount toward future purchases from the vendor. As of December 31, 2015 we had met \$2.7 million of this obligation. The \$300,000 payment we received is recorded as a long-term liability and will decrease as the purchase commitment is fulfilled. The long-term liability remaining as of December 31, 2015 was \$129,000.

Recently Issued Accounting Pronouncements

On February 25, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, Leases (Topic 842), as part of a joint project with the International Accounting Standards Board ("IASB") to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To satisfy the foregoing objective, the FASB is creating Topic 842, Leases, which supersedes Topic 840. Under the new guidance, a lessee will be required to recognize assets and liabilities for capital and operating leases with lease terms of more than 12 months. Additionally, this ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The new standard will be effective during our first quarter ending March 31, 2019. We are currently evaluating the potential impact this new standard may have on our financial statements.

On November 20, 2015, FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The new standard will be effective during our first quarter ending March 31, 2017. We are currently evaluating the potential impact this new standard may have on our financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU requires entities measuring inventories under the first-in, first-out or average cost methods to measure inventory at the lower of cost or net realizable value, where net realizable value is "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." Inventory was previously required to be measured at the lower of cost or market value, where the measurement of market value had several potential outcomes. The provisions of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted provided that presentation is applied to the beginning of the fiscal year of adoption. A reporting entity may apply the amendment prospectively. We are currently evaluating the potential impact this new standard may have on our financial statements.

On August 27, 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40)-Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU No. 2014-15 provides guidance to U.S. GAAP about management's responsibility to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU No. 2014-15 (1) defines the term substantial doubt, (2) requires an evaluation of every reporting period including interim periods, (3) provides principles for considering the mitigating effect of management's plan, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. We do not expect this new standard to have a material impact on our financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as part of a joint project with the International Accounting Standards Board (IASB) to clarify revenue-recognizing principles and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU No. 2014-09 finalizes Proposed ASU Nos. 1820-100, 2011-230 and 2011-250 and is expected, among other things, to remove inconsistencies and weaknesses in revenue requirements and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. In particular, the amendments in this ASU will be added to the FASB Accounting Standards Codification (FASB ASC) as Topic 606, Revenue from Contracts with Customers, and will supersede the revenue recognition requirements in FASB ASC 605, Revenue Recognition, as well as some cost guidance in FASB ASC Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the guidance provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. In August 2015, the FASB issued ASU No. 2015-14 deferring the effective date of ASU No. 2014-09, by one year. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and early adoption is permitted only for annual reporting periods beginning after December 15, 2016, including interim periods within that year. Additionally, an entity should apply the amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects the latter, transition method, then it must also provide the additional disclosures in reporting periods that include the date of initial application of (1) the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and (2) an explanation of the reasons for significant changes. The new standard will be effective during our first quarter ending March 31, 2018. We are currently evaluating the new standard to determine which reporting option allows us to report the most meaningful information and are still evaluating the potential impact this new standard may have on our financial statements.

Environmental Regulations

Various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to protection of human safety and health and the environment, affect our operations and costs. Compliance with these laws and regulations could cause us to incur remediation or other corrective action costs or result in the assessment of administrative, civil and criminal penalties and the issuance of injunctions delaying or prohibiting operations. In addition, we have acquired certain properties and plant facilities from third parties whose actions with respect to the management and disposal or release of hydrocarbons or other wastes were not under our control. Under environmental laws and regulations, we could be required to remove or remediate wastes disposed of or released by prior owners. In addition, we could be responsible under environmental laws and regulations for properties and plant facilities we lease, but do not own. Compliance with such laws and regulations increases our overall cost of business, but has not had a material adverse effect on our operations or financial condition. It is not anticipated, based on current laws and regulations, that we will be required in the near future to expend amounts that are material in relation to our total expenditure budget in order to comply with environmental laws and regulations but such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. We also could incur costs related to the cleanup of sites to which we send equipment and for damages to natural resources or other claims related to releases of regulated substances at such sites.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK
Commodity Risk

Our commodity risk exposure is the pricing applicable primarily to natural gas production and to lesser extent oil 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 such resources 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, trade receivables, accounts payable and our line of credit. The carrying amounts of cash and cash equivalents, trade receivables, and accounts payable approximate fair value because of the short-term nature of the instruments. The fair value of our bank borrowings approximate the carrying amounts as of December 31, 2015 and 2014, and were determined based upon interest rates currently available to us.

Customer Credit Risk

We are exposed to the risk of financial non-performance by our customers. Our ability to collect on rentals and sales to our customers is dependent on the liquidity of our customer base. To manage customer credit risk, we monitor credit ratings of our customers. 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. At December 31, 2015, we had two customers that accounted for a total of approximately 35% of our accounts receivable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited financial statements and supplementary financial data are included in this Annual Report on Form 10-K beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Vice President and Chief Financial Officer, of the effectiveness of the design of our “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended or, the “Exchange Act”) as of December 31, 2015, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the President and Chief Executive Officer and our Principal Accounting Officer have concluded that our disclosure controls and procedures as of December 31, 2015, are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers as appropriate to allow timely decisions regarding required disclosures. Due to the inherent limitations of control systems, not all misstatements may be detected. Those inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management, including the President and Chief Executive Officer and our Principal Accounting Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system is designed 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. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipt and expenditures are being made only in accordance with authorizations of management and our Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. A system of internal control may become inadequate over time because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as December 2015 using the criteria set forth by the Commission of Sponsoring Organizations of the Treadway Commission (COSO) in their *Internal Control-Integrated Framework (2013)*. Based on this assessment, our management concluded that, as of December 31, 2015, our internal control over financial reporting was effective.

Pursuant to the Section 404 of the Sarbanes-Oxley Act of 2002, we have included a report of management's assessment of the effectiveness of our internal controls as part of this annual report on Form 10-K for the fiscal year December 31, 2015. BDO USA, LLP, our independent registered public accounting firm, has issued an attestation report dated March 11, 2016 on the effectiveness of internal control over financial reporting. That report is included herein.

ITEM 9B. OTHER INFORMATION

None.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Natural Gas Services Group, Inc.
Midland, Texas

We have audited Natural Gas Services Group, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Item 9A. Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Natural Gas Services Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Natural Gas Services Group, Inc. as of December 31, 2015 and 2014 and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated March 11, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Houston, Texas
March 11, 2016

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to the sections “Election of Directors,” “Executive Officers,” “Corporate Governance” and “The Board of Directors and its Committees” in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

We have adopted a Code of Business Conduct and Ethics that applies to our directors, officers and employees. The Code of Business Conduct and Ethics is posted in the "Investor Relations" section of our website at www.ngsg.com. The Code of Business Conduct and Ethics may be obtained free of charge by writing to Natural Gas Services Group, Inc., Attn: Investor Relations, 508 W. Wall Street, Suite 550 Midland, Texas 79701.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the section “Executive Compensation” in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the section “Principal Shareholders and Security Ownership of Management” in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the sections “Related Person Transactions” and “Corporate Governance” in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section “Principal Accountant Fees and Services” in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS

The following documents are filed as part of this Annual Report on Form 10-K:

(a)(1) and (a)(2) Financial Statements

For a list of Financial Statements, see “Index to Financial Statements” and incorporated herein by reference.

(a)(3) Exhibits

A list of exhibits to this Annual Report on Form 10-K is set forth below:

<u>Exhibit No.</u>	<u>Description</u>
3.1	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of the 10-QSB filed and dated November 10, 2004)
3.2	Bylaws (Incorporated by reference to Exhibit 3.4 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.1	Non-Statutory Stock Option Agreement (Incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on August 30, 2005)

- 10.1 Lease Agreement, dated March 26, 2008, between WNB Tower, LTD and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.15 of the Registrant's Form 10-K for the fiscal year ended December 31, 2008 and filed with the Securities and Exchange Commission on March 9, 2009)
- 10.2 2009 Restricted Stock/Unit Plan (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K dated September 18, 2009 and filed with the Securities and Exchange Commission on September 18, 2009.)
- 10.3 1998 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K dated September 18, 2009 and filed with the Securities and Exchange Commission on September 18, 2009.)
- 10.4 Lease Agreement, dated December 11, 2008, between Klement-Wes Partnership, LTD and Natural Gas Services Group, Inc. and commencing on January 1, 2009
- 10.5 Credit Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 10, 2010 (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 24, 2014.)
- 10.6 Third Amendment of Credit Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated November 19, 2014 (Incorporated by reference to Exhibit 10.1 of the Registrant's Current report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2012.)
- 10.7 Security Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 10, 2010 (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2011.)
- 10.8 First Amendment of Security Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 31, 2011 (Incorporated by reference to Exhibit 10.2 of the Registrant's Current report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2012.)
- 10.9 Promissory Note in the aggregate amount of \$30,000,000 issued to JPMorgan Chase Bank, N.A., dated December 31, 2014, in connection with the revolving credit line under the Credit Agreement with JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 24, 2014.)
- 10.10 Employment Agreement between Natural Gas Services Group, Inc. and Stephen C. Taylor dated October 23, 2013 (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2013)
- *23.1 Consent of BDO USA, LLP
- *31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31.2 Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32.2 Certification of Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 11, 2016

By: /s/ Stephen C. Taylor

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
<u>/s/ Stephen C. Taylor</u> Stephen C. Taylor	Chairman of the Board of Directors, Chief Executive Officer and President (Principal Executive Officer)	March 11, 2016
<u>/s/ G. Larry Lawrence</u> G. Larry Lawrence	Vice President and Chief Financial Officer (Principal Accounting Officer)	March 11, 2016
<u>/s/ Charles G. Curtis</u> Charles G. Curtis	Director	March 11, 2016
<u>/s/ William F. Hughes, Jr.</u> William F. Hughes, Jr.	Director	March 11, 2016
<u>/s/ David L. Bradshaw</u> David L. Bradshaw	Director	March 11, 2016
<u>/s/ John W. Chisholm</u> John W. Chisholm	Director	March 11, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Natural Gas Services Group, Inc.
Midland, Texas

We have audited the accompanying balance sheets of Natural Gas Services Group, Inc. (the "Company") as of December 31, 2015 and 2014 and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Natural Gas Services Group, Inc. as of December 31, 2015 and 2014 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Natural Gas Services Group, Inc.'s, internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 11, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Houston, Texas
March 11, 2016

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

	December 31,	
	2015	2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 35,532	\$ 6,181
Trade accounts receivable, net of allowance for doubtful accounts of \$833 and \$507, respectively	9,107	10,408
Inventory, net of allowance for obsolescence of \$12 and \$225, respectively	27,722	32,624
Prepaid income taxes	81	5,391
Prepaid expenses and other	762	472
Total current assets	73,204	55,076
Rental equipment, net of accumulated depreciation of \$111,293 and \$106,179, respectively	191,933	208,292
Property and equipment, net of accumulated depreciation of \$10,825 and \$10,830, respectively	8,527	7,362
Goodwill	10,039	10,039
Intangibles, net of accumulated amortization of \$1,382 and \$1,257, respectively	1,777	1,902
Other assets	73	41
Total assets	\$ 285,553	\$ 282,712
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,226	\$ 4,990
Accrued liabilities	3,071	6,624
Deferred income	271	1,635
Total current liabilities	4,568	13,249
Line of credit	417	417
Deferred income tax liability	56,458	58,304
Other long-term liabilities	129	155
Total liabilities	61,572	72,125
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, 30,000 shares authorized, par value \$0.01; 12,603 and 12,466 shares issued and outstanding, respectively	126	124
Additional paid-in capital	98,310	95,065
Retained earnings	125,545	115,398
Total stockholders' equity	223,981	210,587
Total liabilities and stockholders' equity	\$ 285,553	\$ 282,712

See accompanying notes to these financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
Revenue:			
Rental income	\$ 76,432	\$ 78,983	\$ 69,062
Sales	18,519	17,200	19,479
Service and maintenance income	968	791	707
Total revenue	<u>95,919</u>	<u>96,974</u>	<u>89,248</u>
Operating costs and expenses:			
Cost of rentals, exclusive of depreciation stated separately below	28,750	31,522	29,017
Cost of sales, exclusive of depreciation stated separately below	13,633	11,297	11,582
Cost of service and maintenance, exclusive of depreciation stated separately below	272	328	344
Loss on retirement of rental equipment	4,370	—	—
Selling, general, and administrative expenses	10,989	10,334	8,141
Depreciation and amortization	22,758	21,507	18,144
Total operating costs and expenses	<u>80,772</u>	<u>74,988</u>	<u>67,228</u>
Operating income	<u>15,147</u>	<u>21,986</u>	<u>22,020</u>
Other income (expense):			
Interest expense	(15)	(10)	(56)
Other income	132	182	548
Total other income, net	<u>117</u>	<u>172</u>	<u>492</u>
Income before provision for income taxes	<u>15,264</u>	<u>22,158</u>	<u>22,512</u>
Provision for income taxes:			
Current	6,963	1,190	399
Deferred	(1,846)	6,840	7,723
Total income tax expense	<u>5,117</u>	<u>8,030</u>	<u>8,122</u>
Net income	<u>\$ 10,147</u>	<u>\$ 14,128</u>	<u>\$ 14,390</u>
Earnings per share:			
Basic	\$ 0.81	\$ 1.14	\$ 1.17
Diluted	\$ 0.79	\$ 1.11	\$ 1.15
Weighted average shares outstanding:			
Basic	12,567	12,434	12,324
Diluted	12,793	12,721	12,550

See accompanying notes to these financial statements.

NATURAL GAS SERVICES GROUP, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
BALANCES , December 31, 2012	—	\$ —	12,241	\$ 122	\$ 88,823	\$ 86,880	\$ 175,825
Exercise of common stock options	—	—	53	—	829	—	829
Compensation expense on common stock options	—	—	—	—	198	—	198
Issuance of restricted stock	—	—	72	—	—	—	—
Tax benefit of equity compensation	—	—	—	—	10	—	10
Compensation expense on restricted common stock	—	—	—	1	1,484	—	1,485
Net income	—	—	—	—	—	14,390	14,390
BALANCES , December 31, 2013	—	\$ —	12,366	\$ 123	\$ 91,344	\$ 101,270	\$ 192,737
Exercise of common stock options	—	—	3	—	59	—	59
Compensation expense on common stock options	—	—	—	—	426	—	426
Issuance of restricted stock	—	—	97	—	—	—	—
Tax benefit of equity compensation	—	—	—	—	419	—	419
Compensation expense on restricted common stock	—	—	—	1	2,817	—	2,818
Net income	—	—	—	—	—	14,128	14,128
BALANCES , December 31, 2014	—	\$ —	12,466	\$ 124	\$ 95,065	\$ 115,398	\$ 210,587
Exercise of common stock options	—	—	66	1	775	—	776
Compensation expense on common stock options	—	—	—	—	601	—	601
Issuance of restricted stock	—	—	71	—	—	—	—
Tax expense of equity compensation	—	—	—	—	(379)	—	(379)
Compensation expense on restricted common stock	—	—	—	1	2,943	—	2,944
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(695)	—	(695)
Net income	—	—	—	—	—	10,147	10,147
BALANCES , December 31, 2015	—	\$ —	12,603	\$ 126	\$ 98,310	\$ 125,545	\$ 223,981

See accompanying notes to these financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 10,147	\$ 14,128	\$ 14,390
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,758	21,507	18,144
Deferred taxes	(1,846)	6,840	7,723
Gain on extinguishment of liability	—	—	(223)
Gain on disposal of assets	(179)	(160)	(48)
Loss on retirement of rental equipment	4,370	—	—
Bad debt allowance	477	121	14
Inventory allowance	205	395	—
Stock based compensation	3,545	3,244	1,682
Changes in current assets (increase) decrease in:			
Trade accounts receivables	824	(3,779)	(73)
Inventory	5,382	(6,112)	(323)
Prepaid income taxes and prepaid expenses	5,774	(3,997)	(1,870)
Changes in current liabilities increase (decrease) in:			
Accounts payable and accrued liabilities	(7,220)	1,126	1,154
Current income tax liability	(1,230)	920	(162)
Deferred income	(1,364)	762	(1,154)
Other	(32)	(12)	—
Tax benefit from equity compensation	—	(419)	(10)
NET CASH PROVIDED BY OPERATING ACTIVITIES	41,611	34,564	39,244
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of rental, property and equipment	(12,504)	(53,342)	(43,419)
Proceeds from sale of property and equipment	189	240	95
NET CASH USED IN INVESTING ACTIVITIES	(12,315)	(53,102)	(43,324)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments of other long-term liabilities, net	(26)	(42)	(82)
Repayments of line of credit, net	—	(160)	(320)
Proceeds from exercise of stock options	776	59	829
Tax benefit from equity compensation	—	419	10
Taxes paid related to net share settlement of equity awards	(695)	—	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	55	276	437
NET CHANGE IN CASH AND CASH EQUIVALENTS	29,351	(18,262)	(3,643)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,181	24,443	28,086
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 35,532	\$ 6,181	\$ 24,443
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	\$ 15	\$ 10	\$ 56
Income taxes paid	\$ 6,530	\$ 4,108	\$ 2,590
NON-CASH TRANSACTIONS			
Transfer of rental equipment to inventory	\$ 2,309	\$ 131	\$ 207
Transfer of inventory to property and equipment	\$ 1,624	\$ —	\$ —
Property and equipment purchases included in accounts payable	\$ —	\$ 218	\$ 251

See accompanying notes to these financial statements.

**NATURAL GAS SERVICES GROUP INC.
NOTES TO FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

Organization and Principles of Consolidation

These notes apply to the financial statements of Natural Gas Services Group, Inc. (the "Company", "NGSG", "Natural Gas Services Group", "we" or "our") (a Colorado corporation). Natural Gas Services Group, Inc. was formed on December 17, 1998 for the purposes of combining the operations of certain manufacturing, service and leasing entities.

Nature of Operations

Natural Gas Services Group, Inc. is a leading provider of small to medium horsepower compression equipment to the natural gas industry. We focus primarily on the non-conventional natural gas production business in the United States (such as coal bed methane, gas shale, tight gas and oil shale). We manufacture, fabricate and rent natural gas compressors that enhance the production of natural gas wells. NGSG provides maintenance services for its natural gas compressors. In addition, we sell custom fabricated natural gas compressors to meet customer specifications dictated by well pressures, production characteristics and particular applications. We also manufacture and sell flare systems for oil and natural gas plant and production facilities.

Use of Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates include fixed asset lives, bad debt allowance and the allowance for inventory obsolescence. It is at least reasonably possible these estimates could be revised in the near term and the revisions could be material.

Cash Equivalents

For purposes of reporting cash flows, we consider all short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Our trade receivables consist of customer obligations for the sale of compressors and flare systems due under normal trade terms, and operating leases for the use of our natural gas compressors. The receivables are not collateralized except as provided for under lease agreements. However, we typically require deposits of as much as 50% or use of progress payments for large custom sales contracts. We extend credit based on management's assessment of the customer's financial condition, receivable aging, customer disputes and general business and economic conditions. The allowance for doubtful accounts was \$833,000 and \$507,000 at December 31, 2015 and 2014, respectively. Management believes that the allowance is adequate; however, actual write-offs may exceed the recorded allowance.

Revenue Recognition

Revenue from the sales of custom and fabricated compressors, and flare systems is recognized when title passes to the customer, the customer assumes risks and rewards of ownership, collectability is reasonably assured and delivery occurs as directed by our customer. From time to time, we have customers that request units and flares to be built under a bill and hold arrangement. In order to recognize revenue under a bill and hold arrangement the following criteria was met: risk of ownership was passed to the customer, customer made a fixed commitment to purchase the goods, the buyer requested the bill and hold, there was a fixed schedule for delivery, we no longer had any specific performance obligations, the purchase was segregated at our facility and the equipment was complete and ready to ship. As of December 31, 2015 we recognized revenue of \$4 million under these bill and hold arrangements. Exchange and rebuilt compressor revenue is recognized when both the replacement compressor has been delivered and the rebuild assessment has been completed. Revenue from compressor service and retrofitting 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. 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.

Major Customers and Concentration of Credit Risk

Sales and rental income to Devon Energy Production, Inc. ("Devon") and Occidental Permian, LTD. ("Oxy") in 2015 amounted to 21% and 10% of revenue, respectively. Sales and rental income to Devon and EOG Resources, Inc. ("EOG") in 2014 amounted to 18% and 15% of revenue, respectively. Sales and rental income to EOG and Devon in 2013 amounted to 18% and 15% of revenue. No other single customer accounted for more than 10% of our revenues in 2015, 2014 or 2013. Oxy and Devon amounted to 25%, and 10%, respectively, of our accounts receivable as of December 31, 2015. EOG, Promatcon Tepatguna and Oxy amounted to 20% and 18% and 14%, respectively, of our accounts receivable as of December 31, 2014. No other customers amounted to more than 10% of our accounts receivable as of December 31, 2015 and 2014.

Inventory

Inventory is valued at the lower of cost or market. The cost of inventories is determined by the weighted average method. A reserve is recorded against inventory balances for estimated obsolescence. This reserve is based on specific identification and historical experience and totaled \$12,000 and \$225,000 at December 31, 2015 and 2014, respectively. There were 7 newly completed compressor units at December 31, 2015 and none at December 31, 2014 available for sale or for use in our rental fleet. At December 31, 2015 and 2014, inventory consisted of the following (in thousands):

	2015	2014
Raw materials	\$ 20,726	\$ 25,984
Finished goods	1,051	—
Work in process	5,945	6,640
Total	<u>\$ 27,722</u>	<u>\$ 32,624</u>

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to forty years. Rental equipment has an estimated useful life of fifteen years.

Gains and losses resulting from sales and dispositions of property and equipment are included in current operations. Maintenance and repairs are charged to operations as incurred.

Goodwill

Goodwill represents the cost in excess of fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually or whenever events indicate impairment may have occurred. Due to the weakening oil price environment, we performed a goodwill impairment test as of June 30, 2015 and our annual goodwill impairment test was performed in the fourth quarter of 2015. We experienced no impairment of goodwill during the years ended December 31, 2015 or 2014.

Intangibles

At December 31, 2015, NGSB had intangible assets, which relate to developed technology and a trade name. The carrying amount net of accumulated amortization at December 31, 2015 and 2014 was \$1.8 million and \$1.9 million respectively. Developed technology is amortized on a straight-line basis with a useful life of 20 years, with a weighted average remaining life of approximately nine years as of December 31, 2015. Amortization expense recognized in each of the years ending December 31, 2015, 2014, and 2013 was \$125,000, \$125,000 and \$130,000 respectively. Estimated amortization expense for the years 2016-2024 is \$125,000 per year. NGSB has an intangible asset with a gross carrying value of \$654,000 at December 31, 2015 related to the trade name of SCS which was acquired in our acquisition of Screw Compression Systems in January 2005. This asset is not being amortized as it has been deemed to have an indefinite life.

The following table represents the identified intangible assets by major asset class (in thousands):

	Useful Life (years)	December 31, 2015			December 31, 2014		
		Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed Technology	20	\$ 2,505	\$ 1,382	\$ 1,123	\$ 2,505	\$ 1,257	\$ 1,248
Trade Name	Indefinite	654	—	654	654	—	654
Total		\$ 3,159	\$ 1,382	\$ 1,777	\$ 3,159	\$ 1,257	\$ 1,902

Our policy is to periodically review intangibles for impairment through an assessment of the estimated future cash flows related to such assets. In the event that assets are found to be carried at amounts in excess of estimated undiscounted future cash flows, then the assets will be adjusted for impairment to a level commensurate with a discounted cash flow analysis of the underlying assets. Based upon our analysis, we experienced no impairment of intangible assets during the years ended December 31, 2015 or 2014.

Warranty

We accrue amounts for estimated warranty claims based upon current and historical product warranty costs and any other related information known. The warranty reserve was \$103,000 and \$0 for December 31, 2015 and 2014, respectively, and is included in accrued liabilities on the balance sheet.

Financial Instruments and Concentrations of Credit Risk

We invest our cash primarily in deposits and money market funds with commercial banks. At times, cash balances at banks and financial institutions may exceed federally insured amounts.

Per Share Data

Basic earnings per common share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed using the weighted average number of common stock and common stock equivalent shares outstanding during the period. There were anti-dilutive securities in 2015 and 2014 and none in 2013.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net income	\$ 10,147	\$ 14,128	\$ 14,390
Denominator for basic net income per common share:			
Weighted average common shares outstanding	12,567	12,434	12,324
Denominator for diluted net income per share:			
Weighted average common shares outstanding	12,567	12,434	12,324
Dilutive effect of stock options and restricted shares	226	287	226
Diluted weighted average shares	12,793	12,721	12,550
Earnings per common share:			
Basic	\$ 0.81	\$ 1.14	\$ 1.17
Diluted	\$ 0.79	\$ 1.11	\$ 1.15

In the year-ended December 31, 2015, options to purchase 107,500 shares of common stock with exercise prices ranging from \$22.90 to \$33.36 were not included in the computation of dilutive income per share, due to their antidilutive effect.

In the year-ended December 31, 2014, options to purchase 55,000 shares of common stock with exercise prices ranging from \$30.41 to \$33.36 were not included in the computation of dilutive income per share, due to their antidilutive effect.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

ASC Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In order to record any financial statement benefit, we are required to determine, based on technical merits of the position, whether it is more likely than not (a likelihood of more than 50 percent) that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. If that step is satisfied, then we must measure the tax position to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of the benefit that is greater than 50 percent likely of being realized upon ultimate settlement. We have no uncertain tax positions as of December 31, 2015 or 2014.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. ASC Topic 820 established a fair value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. These inputs are categorized as follows:

Level 1- quoted prices in an active market for identical assets or liabilities;

Level 2- quoted prices in an active market for similar assets or liabilities, inputs other than quoted prices that are observable for similar assets or liabilities, inputs derived principally from or corroborated by observable market data by correlation or other means; and

Level 3- valuation methodology with unobservable inputs that are significant to the fair value measurement.

Management believes that the fair value of our cash and cash equivalents, trade receivables, accounts payable and line of credit at December 31, 2015 and 2014 approximate their carrying values due to the short-term nature of the instruments or the use of prevailing market interest rates.

Segments and Related Information

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

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

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

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

Recently Issued Accounting Pronouncements

On February 25, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, Leases (Topic 842), as part of a joint project with the International Accounting Standards Board ("IASB") to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To satisfy the foregoing objective, the FASB is creating Topic 842, Leases, which supersedes Topic 840. Under the new guidance, a lessee will be required to recognize assets and liabilities for capital and operating leases with lease terms of more than 12 months. Additionally, this ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The new standard will be effective during our first quarter ending March 31, 2019. We are currently evaluating the potential impact this new standard may have on our financial statements.

On November 20, 2015, FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The new standard will be effective during our first quarter ending March 31, 2017. We are currently evaluating the potential impact this new standard may have on our financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU requires entities measuring inventories under the first-in, first-out or average cost methods to measure inventory at the lower of cost or net realizable value, where net realizable value is "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." Inventory was previously required to be measured at the lower of cost or market value, where the measurement of market value had several potential outcomes. The provisions of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted provided that presentation is applied to the beginning of the fiscal year of adoption. A reporting entity may apply the amendment prospectively. We are currently evaluating the potential impact this new standard may have on our financial statements.

On August 27, 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40)-Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU No. 2014-15 provides guidance to U.S. GAAP about management's responsibility to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU No. 2014-15 (1) defines the term substantial doubt, (2) requires an evaluation of every reporting period including interim periods, (3) provides principles for considering the mitigating effect of management's plan, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. We do not expect this new standard to have a material impact on our financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as part of a joint project with the International Accounting Standards Board (IASB) to clarify revenue-recognizing principles and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU No. 2014-09 finalizes Proposed ASU Nos. 1820-100, 2011-230 and 2011-250 and is expected, among other things, to remove inconsistencies and weaknesses in revenue requirements and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. In particular, the amendments in this ASU will be added to the FASB Accounting Standards Codification (FASB ASC) as Topic 606, Revenue from Contracts with Customers, and will supersede the revenue recognition requirements in FASB ASC 605, Revenue Recognition, as well as some cost guidance in FASB ASC Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the guidance provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. In August 2015, the FASB issued ASU No. 2015-14 deferring the effective date of ASU No. 2014-09, by one year. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and early adoption is permitted only for annual reporting periods beginning after December 15, 2016, including interim periods within that year. Additionally, an entity should apply the amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects the latter, transition method, then it must also provide the additional disclosures in reporting periods that include the date of initial application of (1) the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and (2) an explanation of the reasons for significant changes. The new standard will be effective during our first quarter ending March 31, 2018. We are currently evaluating the new standard to determine which reporting option allows us to report the most meaningful information and are still evaluating the potential impact this new standard may have on our financial statements

Reclassification of Prior Period Balances

Certain reclassifications have been made to prior period amounts to conform to the current-year presentation. These reclassifications had no effect on the reported results of operations.

2. Rental Activity

We rent natural gas compressor packages to entities in the petroleum industry. These rental arrangements are classified as operating leases and generally have original terms of six months to two years and continue on a month-to-month basis thereafter. Depreciation expense for rental equipment was \$21.0 million, \$19.8 million and \$16.4 million for the years ended

December 31, 2015, 2014 and 2013, respectively. Future minimum rent payments for arrangements not on a month-to-month basis at December 31, 2015 are as follows :

Years Ending December 31, (in thousands)		
2016	\$	24,284
2017		1,296
Thereafter		121
Total	\$	25,701

3. Property and Equipment

Property and equipment consists of the following at December 31, 2015 and 2014 (in thousands):

	Useful Lives (Years)	2015	2014
Land and building	30	\$ 7,025	\$ 5,636
Leasehold improvements	39	794	793
Office equipment and furniture	5	1,380	1,376
Software	5	573	573
Machinery and equipment	7	3,105	2,847
Vehicles	3	6,475	6,967
Total		19,352	18,192
Less accumulated depreciation		(10,825)	(10,830)
Total		\$ 8,527	\$ 7,362

Depreciation expense for property and equipment was \$1.6 million for the years ended December 31, 2015, 2014 and 2013.

4. Retirement of Long-Lived Assets

As a result of a decline in market conditions during the first half of 2015, management reviewed our rental compressor units that were not of the type, configuration, make or model that our customers were demanding or that were not cost efficient to refurbish, maintain and operate. As a result of that review, we determined that 258 units representing total horsepower of 32,259 should be retired from our rental fleet with key components from those units being re-utilized in future unit builds and/or repairs. We performed an optimization review and recorded a \$4.4 million loss on the retirement of rental equipment to reduce the book value of each unit to the estimated fair value of approximately \$967,000 for the key components being kept. The retirement is recorded in the income statement under loss on retirement of rental equipment.

5. Credit Facility

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

Borrowing Base. At any time before the maturity of the Amended Credit Agreement, we may draw, repay and re-borrow amounts available under the borrowing base up to the maximum aggregate availability discussed above. Generally, the borrowing base equals the sum of (a) 80% of our eligible accounts receivable plus (b) 50% of the book value of our eligible general inventory (not to exceed 50% of the commitment amount at the time) plus (c) 75% of the book value of our eligible equipment inventory. JPMorgan Chase Bank (the "Lender") may adjust the borrowing base components if material deviations in the collateral are discovered in future audits of the collateral. We had \$29.5 million borrowing base availability at December 31, 2015 under the terms of our Amended Credit Agreement.

Interest and Fees. Under the terms of the Amended Credit Agreement, we have the option of selecting the applicable variable rate for each revolving loan, or portion thereof, of either (a) LIBOR multiplied by the Statutory Reserve Rate (as defined in the Amended Credit Agreement), with respect to this rate, for Eurocurrency funding, plus the Applicable Margin (“LIBOR-based”), or (b) CB Floating Rate, which is the Lender’s Prime Rate less the Applicable Margin; provided, however, that no more than three LIBOR-based borrowings under the agreement may be outstanding at any one time. For purposes of the LIBOR-based interest rate, the Applicable Margin is 1.50%. For purposes of the CB Floating Rate, the Applicable Margin is 1.25%.

Accrued interest is payable monthly on outstanding principal amounts, provided that accrued interest on LIBOR-based loans is payable at the end of each interest period, but in no event less frequently than quarterly. In addition, fees and expenses are payable in connection with our requests for letters of credit (generally equal to the Applicable Margin for LIBOR-related borrowings multiplied by the face amount of the requested letter of credit) and administrative and legal costs.

Maturity. The maturity date of the Amended Credit Agreement is December 31, 2017, at which time all amounts borrowed under the agreement will be due and outstanding letters of credit must be cash collateralized. The agreement may be terminated early upon our request or the occurrence of an event of default.

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

Covenants. The Amended Credit Agreement contains customary representations and warranties, as well as covenants which, among other things, limit our ability to incur additional indebtedness and liens; enter into transactions with affiliates; make acquisitions in excess of certain amounts; pay dividends; redeem or repurchase capital stock or senior notes; make investments or loans; make negative pledges; consolidate, merge or effect asset sales; or change the nature of our business. In addition, we also have certain financial covenants that require us to maintain a leverage ratio less than or equal to 2.50 to 1.00 as of the last day of each fiscal quarter.

Events of Default and Acceleration. The Amended Credit Agreement contains customary events of default for credit facilities of this size and type, and includes, without limitation, payment defaults; defaults in performance of covenants or other agreements contained in the loan documents; inaccuracies in representations and warranties; certain defaults, termination events or similar events; certain defaults with respect to any other Company indebtedness in excess of \$50,000; certain bankruptcy or insolvency events; the rendering of certain judgments in excess of \$150,000; certain ERISA events; certain change in control events and the defectiveness of any liens under the secured revolving credit facility. Obligations under the Amended Credit Agreement may be accelerated upon the occurrence of an event of default.

As of December 31, 2015, we were in compliance with all covenants in our Amended Credit Agreement. A default under our Credit Agreement could trigger the acceleration of our bank debt so that it is immediately due and payable. Such default would likely limit our ability to access other credit. At December 31, 2015 our balance on the line of credit was \$417,000. Our weighted average interest rate for the year ended December 31, 2015 was 1.69%.

6. Other Long-term Liabilities

At December 31, 2012, we had a long-term liability of \$275,000 to Midland Development Corporation. The liability was fully satisfied during the quarter ended March 31, 2013. As a result of our performance under the agreement, a payment to Midland Development Corporation of \$52,000 was made to settle the liability, resulting in a gain of \$223,000, which is included in the other income line, in our statement of income for the year ended December 31, 2013.

In addition, we entered into a purchase agreement with a vendor on July 30, 2008 pursuant to which we agreed to purchase up to \$4.8 million of our paint and coating requirements exclusively from the vendor. In connection with the execution of the agreement, the vendor paid us a \$300,000 fee which is considered to be a discount toward future purchases from the vendor. The \$300,000 payment we received is recorded as a long-term liability and will decrease as the purchase commitment is fulfilled. The long-term liability remaining for the purchase commitment was \$129,000 and \$155,000 as of December 31, 2015 and 2014, respectively.

7. Income Taxes

The provision for income taxes for the years ended December 31, 2015, 2014 and 2013, consists of the following (in thousands):

	2015	2014	2013
Current provision:			
Federal	\$ 6,440	\$ 995	\$ 69
State	523	195	330
Total current provision	<u>6,963</u>	<u>1,190</u>	<u>399</u>
Deferred provision:			
Federal	(1,846)	6,840	7,723
Total deferred provision	<u>(1,846)</u>	<u>6,840</u>	<u>7,723</u>
Total provision	<u>\$ 5,117</u>	<u>\$ 8,030</u>	<u>\$ 8,122</u>

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and (liabilities) as of December 31, 2015 and 2014, are as follows (in thousands):

	2015	2014
Deferred income tax assets:		
Stock Compensation	\$ 1,011	\$ 1,249
Other	4	80
Total deferred income tax assets	<u>\$ 1,015</u>	<u>\$ 1,329</u>
Deferred income tax liabilities:		
Property and equipment	\$ (56,132)	(58,610)
Goodwill and other intangible assets	(998)	(1,023)
Other	(343)	—
Total deferred income tax liabilities	<u>(57,473)</u>	<u>(59,633)</u>
Net deferred income tax liabilities	<u>\$ (56,458)</u>	<u>\$ (58,304)</u>

The effective tax rate for the years ended December 31, 2015, 2014 and 2013, differs from the statutory rate as follows:

	2015	2014	2013
Statutory rate	34.0 %	34.0%	34.0%
State and local taxes	1.5 %	1.5%	1.7%
Other	(2.0)%	0.7%	0.4%
Effective rate	<u>33.5 %</u>	<u>36.2%</u>	<u>36.1%</u>

Our policy regarding income tax interest and penalties is to expense those items as general and administrative expense. During the years ended December 31, 2015, 2014 and 2013, there were no significant income tax interest or penalty items in the statement of income.

We had a federal net operating loss carry forward of \$3.2 million as of December 31, 2012, which was utilized in the year ended December 31, 2013. We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, we are no longer subject to U.S. federal or state income tax examination by tax authorities for years before 2011.

8. Stockholders' Equity

Preferred Stock

We have a total of 5.0 million authorized preferred shares with rights and preferences as designated by the Board of Directors. As of December 31, 2015 and 2014, there were no issued or outstanding preferred shares.

9. Stock-Based Compensation

Restricted Stock

On June 3, 2014, at our annual meeting of shareholders, our shareholders approved a proposed amendment to the 2009 Restricted Stock/Unit Plan (the "Plan") to add additional 500,000 shares of common stock to the Plan, thereby authorizing the issuance of up to 800,000 shares of common stock under the Plan. On March 19, 2015, the Compensation Committee awarded 20,000 shares of restricted common stock each to G. Larry Lawrence, our CFO, and James Hazlett, our Vice President of Technical Services, which vest one year from the grant date. We also awarded and issued 21,968 shares of restricted common stock to our Board of Directors as partial payment for 2015 directors' fees. The restricted stock issued to our directors vests over one year, in quarterly installments, beginning March 31, 2016. In accordance with the Company's employment agreement with Stephen Taylor, the Company's Chief Executive Officer, the Compensation Committee reviewed his performance in determining the issuance of restricted common stock. Based on this review which included consideration of the Company's 2014 performance, Mr. Taylor, was awarded 83,590 restricted shares on January 16, 2015, which vest one year from the date of grant. Compensation expense related to the restricted shares was approximately \$2,944,000, \$2,818,000 and \$1,485,000 for the years ended December 31, 2015, 2014, and 2013, respectively. As of December 31, 2015, there was a total of approximately \$457,000 of unrecognized compensation expense related to the nonvested portion of these restricted shares. This expense is expected to be recognized within one year. As of December 31, 2015, 361,394 shares were still available for issuance under the Plan.

A summary of all restricted stock activity as of December 31, 2015 and changes during the year then ended is presented below.

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value <i>(in thousands)</i>
Outstanding, December 31, 2014	99,238	\$ 28.22	9.00	\$ 2,286
Granted	145,558	19.17	—	2,886
Vested	(99,238)	28.22	—	2,100
Canceled/Forfeited	—	—	—	—
Outstanding, December 31, 2015	145,558	\$ 19.17	9.12	\$ 3,246

Stock Option Plan

Our 1998 Stock Option Plan (the "Stock Option Plan"), which is stockholder approved, permits the granting of stock options to its employees for up to 550,000 shares of common stock. On June 16, 2009, at our annual meeting of shareholders, our shareholders approved a proposed amendment to the Stock Option Plan to add additional 200,000 shares of common stock to the Stock Option Plan, thereby authorizing the issuance of up to 750,000 shares of common stock under the Stock Option Plan. We believe that such awards better align the interests of our employees with our stockholders. Option awards are generally granted with an exercise price equal to the market price of our stock at the date of grant; those option awards generally vest based on three years of continuous service and have ten-year contractual terms. Certain option and share awards provide for accelerated vesting if there is a change in control of the Company (as defined in the Stock Option Plan). The last date that grants can be made under the Stock Option Plan is March 1, 2016, pending shareholder approval of an extension to the Stock Option Plan. As of December 31, 2015, 93,419 shares were still available for issue under the Stock Option Plan.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of options granted is based on the vesting period

and historical exercise and post-vesting employment termination behavior for similar grants. We use historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes.

Weighted average Black -Scholes fair value assumption during the years ended December 31, are as follows:

	2015	2014	2013
Risk free rate	1.56%	1.96%	1.02%
Expected life	6 years	6 years	6 years
Expected volatility	45.07%	58.44%	60.39%
Expected dividend yield	—	—	—

A summary of all option activity as of December 31, 2015 and changes during the year then ended is presented below.

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value <i>(in thousands)</i>
Outstanding, December 31, 2014	432,269	\$ 17.55	4.89	\$ 2,786
Granted	50,000	22.90		
Exercised	(66,000)	11.76		481
Canceled/Forfeited	(1,500)	30.41		—
Expired	—	—		
Outstanding, December 31, 2015	414,769	\$ 19.07	5.08	\$ 1,814
Exercisable, December 31, 2015	312,933	\$ 17.13	3.93	\$ 1,766

We granted one option to purchase a total of 50,000 shares to non-executive employees in April 2015 at an exercise price of \$22.90 with a three year vesting period.

The weighted average grant date fair value of options granted during the years 2015, 2014, and 2013 was \$10.33, \$16.56, and \$10.30 respectively. 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 years ended December 31, 2015, 2014, and 2013 was approximately \$481,000, \$48,000, and \$458,000 respectively. Cash received from stock options exercised during the years ended December 31, 2015, 2014, and 2013 was \$776,000, \$59,000, and \$829,000, respectively.

The following table summarizes information about our stock options outstanding at December 31, 2015:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$0.01-15.70	94,852	3.23	\$ 11.23	94,852	\$ 11.23
\$15.71-17.81	92,750	3.78	\$ 17.56	92,750	\$ 17.56
\$17.82-20.48	119,667	4.27	\$ 19.58	106,167	\$ 19.69
\$20.49-33.36	107,500	8.75	\$ 26.72	19,164	\$ 30.05
	414,769	5.08	\$ 19.07	312,933	\$ 17.13

The summary of the status of our unvested stock options as of December 31, 2015 and changes during the year then ended is presented below.

Unvested stock options:	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2014	91,834	\$ 14.19
Granted	50,000	\$ 10.33
Vested	(38,498)	\$ 13.09
Cancelled/Forfeited	(1,500)	\$ 16.79
Unvested at December 31, 2015	<u>101,836</u>	<u>\$ 12.67</u>

We recognized stock compensation expense from stock options vesting of \$601,000, \$426,000, and \$198,000 for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, there was approximately \$722,000 of total unamortized compensation cost related to unvested stock options. We expect to recognize such cost over a weighted-average period of 3.0 years.

10. Commitments and Contingencies

401(k) Plan

We offer a 401(k) Plan to all employees that have reached the age of eighteen and have completed six months of service. The participants may contribute up to 100% of their salary subject to IRS limitations. Employer contributions are subject to Board discretion and are subject to a vesting schedule of 20% each year after the first year and 100% after six years. We contributed \$387,000, \$296,000, and \$294,000 to the 401(k) Plan in 2015, 2014 and 2013, respectively.

Rented Facilities, Vehicles and Equipment

We lease certain of our facilities and equipment under operating leases with terms generally ranging from month-to-month to five years. Most leases contain renewal options. Remaining future minimum rental payments due under these leases are as follows:

Years Ending December 31, (in thousands)	
2016	\$ 383
2017	407
2018	275
2019	59
Total	<u>\$ 1,124</u>

Rent expense under such leases was \$375,000, \$380,000, and \$358,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Legal Proceedings

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

11. Quarterly Financial Data (in thousands, except per share data) – Unaudited

2015	Q1	Q2	Q3	Q4	Total
Total revenue	\$ 24,741	\$ 24,230	\$ 21,193	\$ 25,755	\$ 95,919
Operating income	5,787	919	3,798	4,643	15,147
Net income	3,694	614	2,562	3,277	10,147
Net income per share - Basic	0.30	0.05	0.20	0.26	0.81
Net income per share - Diluted	0.29	0.05	0.20	0.26	0.79

2014	Q1	Q2	Q3	Q4	Total
Total revenue	\$ 22,322	\$ 21,952	\$ 25,599	\$ 27,101	\$ 96,974
Operating income	4,362	5,085	5,840	6,699	21,986
Net income	2,856	3,385	3,883	4,004	14,128
Net income per share - Basic	0.23	0.27	0.31	0.32	1.14
Net income per share - Diluted	0.23	0.27	0.30	0.32	1.11

Amounts may not add due to rounding differences.

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.1	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of the 10-QSB filed and dated November 10, 2004)
3.2	Bylaws (Incorporated by reference to Exhibit 3.4 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
4.1	Non-Statutory Stock Option Agreement (Incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on August 30, 2005)
10.1	Lease Agreement, dated March 26, 2008, between WNB Tower, LTD and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.15 of the Registrant's Form 10-K for the fiscal year ended December 31, 2008 and filed with the Securities and Exchange Commission on March 9, 2009)
10.2	2009 Restricted Stock/Unit Plan (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K dated September 18, 2009 and filed with the Securities and Exchange Commission on September 18, 2009.)
10.3	1998 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K dated September 18, 2009 and filed with the Securities and Exchange Commission on September 18, 2009.)

- 10.4 Lease Agreement, dated December 11, 2008, between Klement-Wes Partnership, LTD and Natural Gas Services Group, Inc. and commencing on January 1, 2009
- 10.5 Credit Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 10, 2010 (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 24, 2014.)
- 10.6 Third Amendment of Credit Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated November 19, 2014 (Incorporated by reference to Exhibit 10.1 of the Registrant's Current report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2012.)
- 10.7 Security Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 10, 2010 (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2011.)
- 10.8 First Amendment of Security Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 31, 2011 (Incorporated by reference to Exhibit 10.2 of the Registrant's Current report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2012.)
- 10.9 Promissory Note in the aggregate amount of \$30,000,000 issued to JPMorgan Chase Bank, N.A., dated December 31, 2014, in connection with the revolving credit line under the Credit Agreement with JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 24, 2014.)
- 10.10 Employment Agreement between Natural Gas Services Group, Inc. and Stephen C. Taylor dated October 23, 2013 (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2013)
- *23.1 Consent of BDO USA, LLP
- *31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31.2 Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32.2 Certification of Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

Certifications

I, Stephen C. Taylor, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 11, 2016

Natural Gas Services Group, Inc.

By: /s/ Stephen C. Taylor

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

Certifications

I, G. Larry Lawrence, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 11, 2016

Natural Gas Services Group, Inc.

By: /s/ G. Larry Lawrence

G. Larry Lawrence

Vice President, Chief Financial Officer

(Principal Accounting Officer)

**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-K for the period ended December 31, 2015 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.

Dated: March 11, 2016

Natural Gas Services Group, Inc.

By: /s/ Stephen C. Taylor
Stephen C. Taylor,
President, CEO and Chairman of the Board of Directors
(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-K for the period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, G. Larry Lawrence, Chief Financial 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.

Dated: March 11, 2016

Natural Gas Services Group, Inc.

By: /s/ G. Larry Lawrence
G. Larry Lawrence,
Vice President and Chief Financial Officer
(Principal Accounting 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.

Consent of Independent Registered Public Accounting Firm

Natural Gas Services Group, Inc.
Midland, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-196578, 333-147311, 333-110954, 333-160068, 333-160063 and 333-153874) of Natural Gas Services Group, Inc. of our reports dated March 11, 2016, relating to the financial statements and the effectiveness of Natural Gas Services Group, Inc.'s internal control over financial reporting, which appear in this Annual Report on Form 10-K.

/s/ BDO USA, LLP

Houston, Texas
March 11, 2016



EXECUTIVE OFFICERS & DIRECTORS

Stephen C. Taylor

Chairman of the Board, President and
Chief Executive Officer

G. Larry Lawrence

Vice President and Chief Financial
Officer

James R. Hazlett

Vice President –Technical Services

David L. Bradshaw

Director, Oil and Gas Investor,
Former Chairman and CEO,
Tipperary Corporation

John W. Chisholm

Director, Founder, Wellogix, Inc.;
President, CEO, Chairman of the
Board, Flotek Industries

Charles G. Curtis

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

William F. Hughes

Director, Co-Owner, The
Whole Wheatery, LLC

Independent Auditors

BDO USA, LLP
333 Clay St., Suite 4700
Houston, Texas 77002

Annual Meeting of Shareholders

June 16, 2016
8:30 A.M. CDT
Petroleum Club of Midland
501 West Wall Street
Midland, Texas 79701

Legal Counsel

David A. Thayer
Jones & Keller, P.C.
1999 Broadway, Suite #3150
Denver, Colorado 80202

Investor Relations

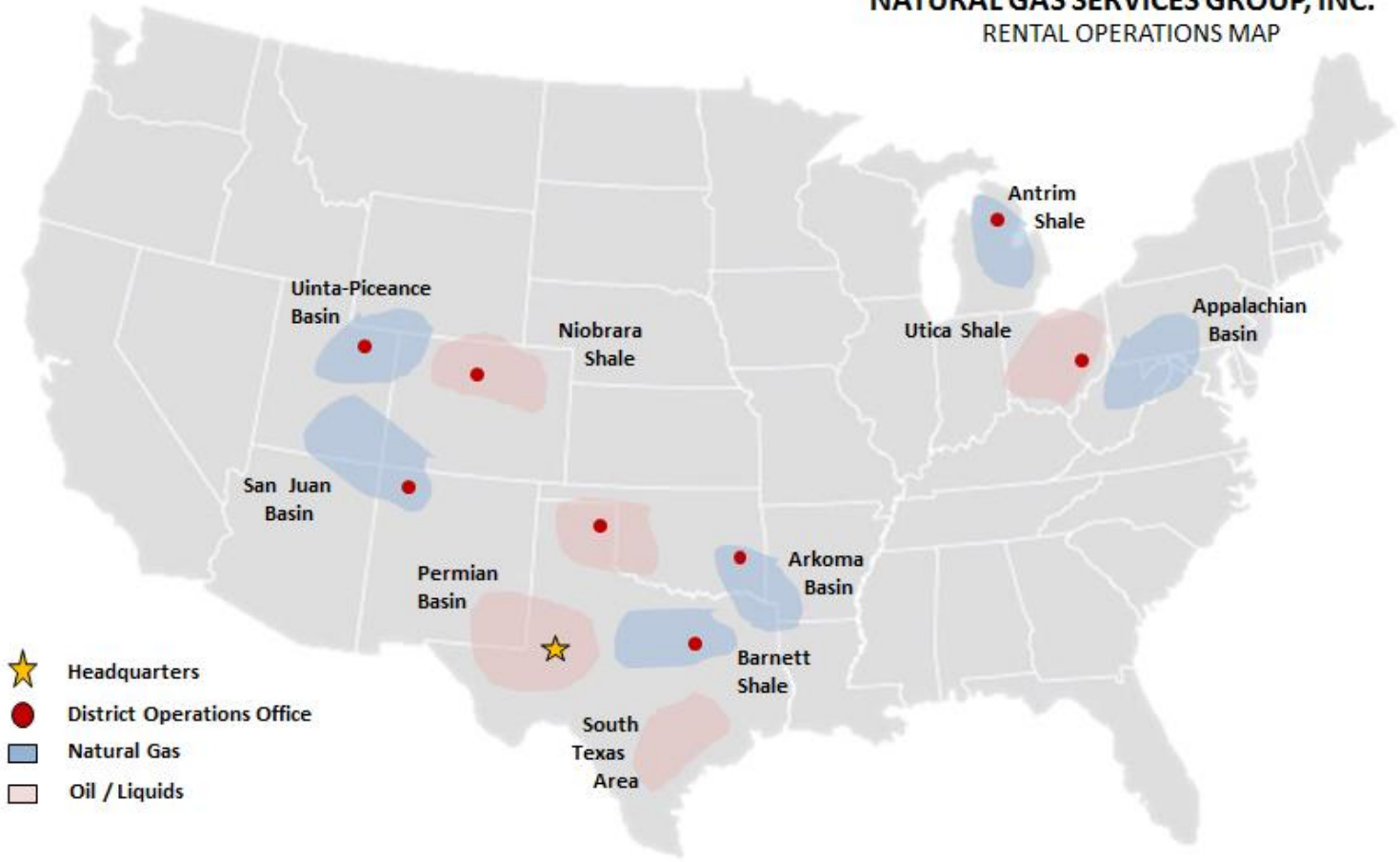
Alicia M. Dada
Natural Gas Services Group
Investor Relations Coordinator

Transfer Agent & Registrar

Computershare Trust Company, Inc.,
Golden, Colorado



NATURAL GAS SERVICES GROUP, INC. RENTAL OPERATIONS MAP



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 2015 the rental fleet totaled 2622 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, Loveland, CO, Carrollton, OH and Lewiston, MI. Rental compressor fabrication facilities are located in Midland, TX. 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 2,500 horsepower per unit and can be natural gas engine or electric motor driven. NGS also 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. Additionally, the Company designs, fabricates, sells, installs and services technologically advanced and patented industrial flare and combustion systems through our Flare King product line for use in onshore and offshore oil and natural gas production facilities. NGS is a public company, and has been listed on the New York Stock Exchange (NYSE:NGS) since 2008.