



# Annual Report 2012

**NGS**  
**LISTED**  
**NYSE**

# 2012 Letter To Our Shareholders



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

Fellow NGSG Shareholders,

I am pleased to report that 2012 was a very good year for Natural Gas Services Group and a record in many respects. In spite of the fact that natural gas prices showed only anemic recovery and not enough to drive any significant activity, NGSG continued to make appreciable progress growing into the active liquids and oil-shale plays. As I mentioned last year, we expected the activity trend in these areas to continue and NGSG geared-up to address these markets. Our geographic expansion kept apace as we added concentration into the Barnett Shale Combo play, placed more equipment into the Granite Wash and the Permian Basin and opened operations in the Niobrara Shale of north-central Colorado. Our Utica Shale presence is intact and we anticipate further growth in all these areas in 2013.

In 2012 NGSG built and added 208 compressor units to the rental fleet at a capital cost of approximately \$31 million while simultaneously increasing our utilization. Unit utilization grew to 77% while 79% of our horsepower was earning revenue at year-end. At the end of 2012, approximately 1/3 of our active rental fleet was installed in liquids and oil plays. This is significant growth and quite an accomplishment since the beginning of 2010 when the company had zero exposure to oil. NGSG was able to quickly identify the emerging oil markets and reorient our fleet to exploit them and our wellhead compression equipment, unique and specially built for shale-type activity, was the perfect fit. These oil-related markets are attractive not only because they are the most active areas in the industry, but we are also able to deploy our equipment at attractive rental rates, the average size of the equipment as measured by horsepower is almost double our fleet average and we have become an integral part of the production scheme on these wells with our equipment being installed by the date of first production. Our long-established strategy of concentrating on wellhead gas compression equipment for unconventional energy sources has now been proven in gas and oil shales and continues to demonstrate its resilience and value.

Our sales business also grew in 2012 over the prior year. Flares and incineration systems had record revenues and compressor sales exhibited some recovery, although this business has not yet re-established its former levels of revenue. The business should show improvement over time, but visibility remains elusive. However, the compressor sales business has benefitted over the last couple of years from increased international sales. This is certainly positive and we anticipate growth in that realm.

Total revenues for NGSG in 2012 were \$93.7 million, a 44% increase over 2011 with operating income growing by 36% to \$20.2 million. Sales, general and administrative expenses fell to 8% of revenue and net income increased to \$12.7 million, a 30% gain. Total revenues, rental revenues and EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) were all at record levels in 2012.

Overall, we think that 2013 will be another year of growth led by continued activity in the liquids and oil-shale areas. NGSG is positioned well to exploit that activity and we anticipate further geographic expansion. While oil and liquids plays should lead our growth again this year, natural gas has recently shown some new found strength and any tail winds there would only add to our anticipated growth.

I want to thank our shareholders, employees and board members for their interest, work and support on behalf of NGSG this past year. We operate in a very competitive atmosphere and having a team pulling in a common direction positively impacts our ability to deliver the results expected.

As always, we invite you to NGSG's annual meeting to be held in Midland, TX on June 12, 2013 at 8:30 am at the Doubletree Hotel at Midland Plaza.

Sincerely,  
Stephen Taylor  
President and Chief Executive Officer



## EXECUTIVE OFFICERS & DIRECTORS

### **Stephen C. Taylor**

Chairman of the Board,  
President and Chief Executive  
Officer

### **John W. Chisholm**

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

### **G. Larry Lawrence**

Vice President and Chief  
Financial Officer

### **William F. Hughes**

Director, Co-Owner, The Whole  
Wheatery, LLC

### **David L. Bradshaw**

Director, Oil and Gas Investor,  
Former Chairman and CEO,  
Tipperary Corporation

### **James R. Hazlett**

Vice President- Technical  
Services

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### **Independent Auditors**

BDO USA, LLP  
333 Clay St.; Suite 4700  
Houston, Texas

### **Legal Counsel**

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

### **Annual Meeting of Shareholders**

June 12, 2013  
8:30 A.M. CDT  
Double Tree Hotel  
117 W. Wall Street  
Midland, Texas 79701

### **Investor Relations**

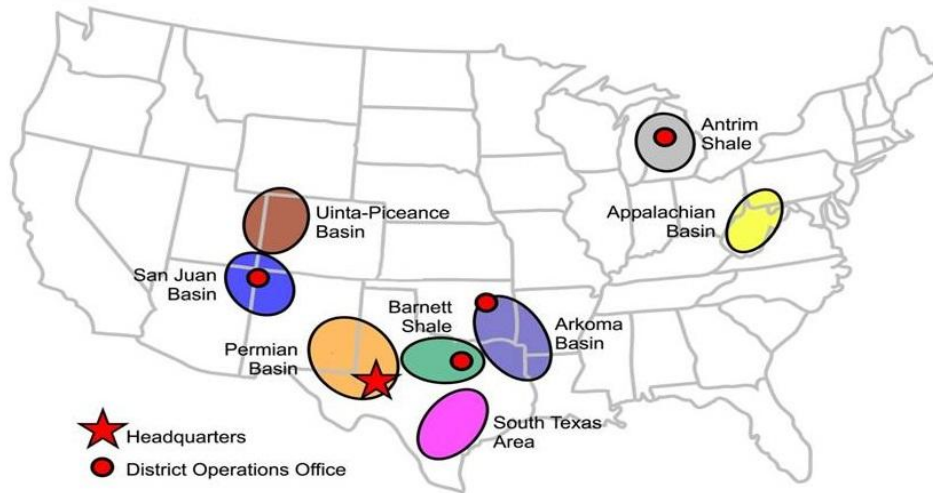
Natural Gas Services Group  
Lindsay T. Naylor  
Investor Relations Coordinator  
Telephone: (432) 262-2700  
Fax: (432) 262-2701

### **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 2012 the rental fleet totaled 2,279 compressor units...the largest rental compressor fleet in the U.S. dedicated to the small-medium horsepower, wellhead market and the third largest overall. Repair and maintenance services for rental fleet units is provided through a network of district offices in Midland, Bridgeport and Godley, TX, Farmington, NM, Vernal, UT, Tulsa, OK, and Lewiston, MI, including the Appalachian and South Texas areas. Rental compressor fabrication facilities are located in Midland, TX. 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 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 ignition systems through our Flare King product line for use in onshore and offshore oil and natural gas production facilities. NGS is a public company listed on the New York Stock Exchange (NYSE: NGS)

#### Headquarters

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