

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

FORM 8-K

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

Date of Report (Date of earliest event reported): August 24, 2005

NATURAL GAS SERVICES GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Colorado (State or other jurisdiction of Incorporation or organization)	1-31398 (Commission File Number)	75-2811855 (IRS Employer Identification No.)
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2911 South County Road 1260 Midland, Texas (Address of Principal Executive Offices)	79706 (Zip Code)
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432-563-3974
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry Into a Material Definitive Agreement

On January 20, 2005, as previously reported in a Current Report on Form 8-K dated January 26, 2005, the Board of Directors of Natural Gas Services Group, Inc., or Natural Gas, appointed Stephen C. Taylor as President and Chief Executive Officer of Natural Gas. Since the date of his appointment, Mr. Taylor's employment has been governed by a verbal arrangement with Natural Gas. On August 24, 2005, Natural Gas and Mr. Taylor reduced their verbal arrangement to a written Employment Agreement (the "Employment Agreement"), containing the following terms:

- o an annual base salary of \$155,000.00;
- o an annual bonus of up to 45% of Mr. Taylor's annual base salary, the amount of which will be based on parameters to be established by our compensation committee and approved by the Board of Directors and the compensation committee;
- o four weeks of vacation each year;
- o \$32,500.00 allowance to purchase a company vehicle;

- o moving expense reimbursement of up to \$20,000.00 to cover the cost and expenses of packaging and moving Mr. Taylor's household goods from Houston to Midland, Texas;
- o reimbursement for the regularly scheduled mortgage payments, including taxes and insurance, made by Mr. Taylor with respect to his residence in Houston, Texas, during the months of May, June and July 2005;
- o standard medical and other benefits provided to all of our employees.
- o the Employment Agreement is for an initial term of three years commencing August 24, 2005, subject to earlier termination upon the occurrence of: (a) a "fundamental change," as defined in Section 2 of the Employment Agreement; (b) the mental or physical incapacity or inability of Mr. Taylor to perform his duties for a consecutive period of one hundred twenty days or a non-consecutive period of one hundred eighty days during any twelve month period; (c) the death of Mr. Taylor; (d) the voluntary resignation or retirement of Mr. Taylor; or (e) the termination of Mr. Taylor's employment for "cause" as set forth in Section 5(a)(ii) of the Employment Agreement;
- o if Mr. Taylor's employment is terminated as the result of a fundamental change or for any reason other than as described in (b), (c), (d) or (e) preceding, Mr. Taylor is entitled to receive a severance benefit from Natural Gas, which benefit includes, among other things, a single lump sum cash payment equal to 200% of Mr. Taylor's base salary as in effect at the date of Mr. Taylor's termination of employment; and

- o the Employment Agreement imposes various restrictive covenants on Mr. Taylor throughout the term of his employment, as well as post-employment non-competition and non-solicitation covenants.

The foregoing summary is qualified in its entirety by reference to the Employment Agreement, a copy of which is included with this Current Report on Form 8-K as Exhibit 10.1

In connection with the Employment Agreement, Natural Gas entered into a Nonstatutory Stock Option Agreement (the "Stock Option Agreement") with Mr. Taylor. The Stock Option Agreement grants to Mr. Taylor a ten-year option to purchase 45,000 shares of our common stock at an exercise price equal to \$9.22 (the fair market value of our common stock on January 13, 2005, the date we initially hired Mr. Taylor), subject to the following vesting schedule:

- o 15,000 shares vest on January 13, 2006;
- o 15,000 shares vest on January 13, 2007; and
- o 15,000 shares vest on January 13, 2008.

The option fully vests upon the occurrence of any of the following:

- o termination of Mr. Taylor's employment for any of the following reasons: (a) incapacitation of Mr. Taylor; (b) retirement of Mr. Taylor; (c) death of Mr. Taylor; or (d) for any other reason, unless Mr. Taylor is terminated for "cause," as defined in Section 7 of the Stock Option Agreement; or
- o upon the occurrence of a "fundamental change," as defined in Section 8 of the Stock Option Agreement.

The option expires ten years from the date of grant. The option is a nonstatutory stock option issued by Natural Gas pursuant to its general corporate powers. Because the option is not being issued pursuant to an existing plan, the income recognized by Mr. Taylor upon exercise of the option will be taxed at a rate equal to Mr. Taylor's then applicable federal ordinary income tax rate. Under the Stock Option Agreement, however, Mr. Taylor is entitled to receive a gross-up payment from Natural Gas in an amount sufficient to place Mr. Taylor in the same after-tax position Mr. Taylor would have been in had such income been taxed at the then applicable federal capital gains tax rate. Mr. Taylor is responsible for all additional tax due with respect to such gross-up payment.

The foregoing summary regarding the Stock Option Agreement is qualified in its entirety by reference to the Stock Option Agreement, a copy of which is included with this Current Report on Form 8-K as Exhibit 10.2.

On August 26, 2005, Natural Gas issued a press release regarding the Employment Agreement and the Stock Option Agreement. A copy of the press release is filed herewith as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Employment Agreement, dated as of August 24, 2005, between Natural Gas Services Group, Inc. and Stephen C. Taylor
10.2	Nonstatutory Stock Option Agreement, effective as of August 24, 2005, between Natural Gas Services Group, Inc., and Stephen C. Taylor
99.1	Press Release dated August 26, 2005, regarding the Employment Agreement and the Stock Option Agreement

SIGNATURES

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

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace C. Sparkman

Wallace C. Sparkman
Chairman of the Board of Directors

Dated: August 26, 2005

EXHIBIT INDEX

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99.1	Press Release dated August 26, 2005, regarding the Employment Agreement and the Stock Option Agreement

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), dated as of August 24, 2005, is between Natural Gas Services Group, Inc., a Colorado corporation (the "Company"), and Stephen C. Taylor, an individual residing in Midland, Texas (the "Employee").

WHEREAS, the Employee was employed by the Company on January 13, 2005, and was appointed by the Board of Directors of the Company to serve as President and Chief Executive Officer on January 20, 2005; and

WHEREAS, the Company and the Employee desire for the Company's employment of the Employee be subject to the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the Company and the Employee hereby agree as follows:

1. Employment. The Company agrees to employ the Employee, and the Employee agrees to enter the employ of the Company, upon the terms and subject to conditions herein provided.

2. Term. The employment of the Employee shall be for a period (referred to herein as the "Employment Term") commencing on the date of this Agreement and ending on the earlier of: (i) the effective date of any "Fundamental Change" with respect to the Company or with respect to the Employee; (ii) the date of termination of Employee's employment pursuant to Section 5 hereof; or (iii) the third anniversary of the Employee's date of employment.

For purposes hereof, a "Fundamental Change" shall occur with respect to: (i) the Company on the effective date of any dissolution, merger, consolidation, sale of all or substantially all of the Company's assets, recapitalization or any other type of transaction which results in 51% or more of the Company's common stock being changed into, or exchanged for, different securities of the Company, as applicable, or other securities or interests in other persons or entities, and (ii) the Employee on the effective date of any change in the duties, functions, responsibilities or authority of the Employee or any decrease in the base salary of the Employee in effect at that time.

3. Position and Duties.

(a) Position. During the Employment Term, the Employee shall serve as President and Chief Executive Officer of the Company. In such capacity, the Employee shall have such duties, functions, responsibilities, and authority customarily appertaining to the position of president and chief executive officer of a corporation; subject, however, to applicable restrictions imposed by the bylaws of the Company and to the directives of the Board of Directors of the Company or its Compensation Committee.

(b) Duties. During the Employment Term, the Employee shall devote his full time, skill and attention, and his best efforts during normal business hours to, and in furtherance of, the business and affairs of the Company and its subsidiaries and affiliates (collectively, the "Related Parties"); except for usual, ordinary and customary periods of vacation and absence due to illness or other disability; provided, however, that Employee may, subject to the Company's code of ethics and conflict of interest policies as in effect from time to time, devote reasonable periods of time in connection with the following activities, if such activities do not materially interfere with the performance of Employee's duties and services hereunder and do not consume more than 10% of Employee's working hours:

- (i) fulfilling speaking engagements; and
- (ii) engaging in charitable and community activities.

4. Compensation and Related Matters.

(a) Base Salary. The Company shall pay to the Employee a base salary at the rate of not less than \$155,000.00 per annum. This base salary shall be reviewed at least annually within 15 days of the anniversary date of the Employee's date of employment and increases in such base salary may be granted

at the sole discretion of the Board of Directors of the Company or its Compensation Committee. If from time to time the Board of Directors of the Company or its Compensation Committee increases the Employee's base salary, the increased base salary amount shall become the minimum base salary under this Agreement.

(b) Stock Option. Upon the Company's execution of this Agreement, the Company shall grant to the Employee a ten-year nonstatutory stock option (the "Stock Option") to purchase 45,000 shares of the Company's common stock at an exercise price equal to \$9.22, the fair market value of the Company's common stock on January 13, 2005, the date the Company employed the Employee. The terms and conditions of the Stock Option shall be as set forth in that certain Nonstatutory Stock Option Agreement, dated of even date herewith, between the Company and the Employee.

(c) Bonuses. In addition to base salary, the Employee shall be entitled to receive on an annual basis during the Employment Term a cash bonus of up to 45% of the Employee's base salary, the amount of which will be based upon and subject to parameters established by the Board of Directors of the Company or its Compensation Committee. Any such bonuses shall be payable to the Employee in the manner specified by the Board of Directors of the Company or its Compensation Committee at the time any such bonus is awarded.

(d) Benefits. The Employee shall, during the Employment Term, be eligible to participate in such insurance, medical and other employee benefit plans, whether now in place or that may be implemented from time to time in the future, including, but not limited to, retirement (401k) plans, of the Company which may be in effect, from time to time, to the extent such plans are then generally available to all employees or to senior management employees of the Company.

(e) Professional Organization Dues. During the Employment Term, the Company shall pay the initiation fees and periodic dues for membership in any professional organizations in which the Employee is as of the date of this Agreement a member, or which are otherwise approved by the Board of Directors of the Company or its Compensation Committee, and the Company shall pay all charges and expenses, including reasonable travel expenses, incurred by the Employee in connection with membership in such organizations.

(f) Moving Expense Reimbursement. The Company shall reimburse the Employee for costs and expenses incurred by the Employee in having his furniture and other household goods packaged and moved from Houston, Texas to Midland, Texas; provided, however, the amount the Company will reimburse to the Employee for such costs and expenses shall not exceed \$20,000.00 and must be supported by appropriate receipts or other supporting documentation satisfactory to the Company.

(g) Company Vehicle. The Company shall purchase a vehicle of the Employee's choice for the Employee to use in connection with his employment with the Company. The purchase price of this vehicle, excluding all tax, title and license fees, shall not exceed \$32,500.00.

(h) Mortgage Payment Reimbursement. The Company will reimburse the Employee for the regularly scheduled monthly mortgage payment, including the monthly taxes and insurance portion of such payment, made by the Employee with respect to his personal residence in Houston, Texas during the months of May, June and July 2005. The Company shall not be required to reimburse the Employee for any of the following:

(i) regularly scheduled monthly mortgage payments made by the Employee on or after August 1, 2005; or

(ii) prepayments of principal, interest, taxes or insurance made by the Employee.

(i) Vacations. The Employee shall be entitled to four (4) weeks of vacation each calendar year, with pay, beginning with calendar year 2005.

(j) Expenses. The Employee will be reimbursed for reasonable expenses incurred in the performance of his duties and services hereunder and in furtherance of the business of the Company and the Related Parties upon presentation by the Employee of an itemized account, accompanied by appropriate receipts satisfactory to the Company.

5. Termination of Employment.

(a) The Employee's employment hereunder:

(i) shall automatically terminate upon the occurrence of any of the following: (A) the mental or physical incapacity or inability of the Employee to perform his duties for a consecutive period of one

hundred twenty (120) days or a non-consecutive period of one hundred eighty (180) days during any twelve month period; (B) the death of the Employee; or (C) the voluntary resignation or retirement of the Employee; and

(ii) may be terminated by the Company, at any time, for "cause", which shall mean by reason of any of the following: (A) the Employee's conviction of, or plea of nolo contendere to, any felony or to any crime or offense causing substantial harm to the Company or any of the Related Parties (whether or not for personal gain) or involving acts of theft, fraud, embezzlement, moral turpitude or similar conduct; (B) malfeasance in the conduct of the Employee's duties, including, but not limited to, (1) willful and intentional misuse or diversion of any of the Company's or Related Parties' funds, (2) embezzlement, or (3) fraudulent or willful and material misrepresentations or concealments on any written reports submitted to the Company or any of the Related Parties, (C) material failure to perform the duties of the Employee's employment or material failure to follow or comply with the reasonable and lawful written directives of the Board of Directors of the Company, provided, however, that the Employee shall have been informed, in writing, of such material failure and given a period of not more than 60 days to remedy same; or (D) a material breach by the Employee of the provisions of this Agreement (including, without limitation, any breach of Section 3(b) of this Agreement).

(b) If the Employee's employment is terminated by reason of any of the circumstances set forth in Sections 5(a)(i) or 5(a)(ii), the Employee shall not be entitled to receive any of the benefits set forth in Section 5(c) and all obligations of the Company and the Employee (except for restrictions pertaining to confidential or proprietary information) under this Agreement shall automatically terminate.

(c) If the Employee's employment is terminated as the result of a Fundamental Change with respect to the Company or with respect to the Employee or for any reason other than as set forth in Sections 5(a)(i) or 5(a)(ii), the Employee shall, subject to the provisions of Section 5(d), be entitled to receive from the Company a severance benefit consisting of the following: (i) a single lump sum cash payment equal to 200% of the Employee's base salary as in effect at the date of the Employee's termination of employment, which severance benefit shall be paid no later than thirty (30) days following the Employee's termination of employment; (ii) all stock options, whether for common stock, preferred stock, warrants or any other securities of the Company, owned or due and owing to Employee, shall immediately vest 100% to Employee on the date of the Employee's termination of employment; (iii) subject to the terms and conditions of the plans and policies governing the benefits provided to the Employee, the health care and insurance benefits (e.g., health, dental, life, disability, etc.) being provided by the Company to the Employee at the date of the Employee's termination of employment shall continue in place at no cost to the Employee for a period of (18) months after such termination date; (iv) the Employee shall be entitled to receive any individual bonuses or individual incentive compensation not yet paid but due and owing to the Employee under the Company's compensation plan or plans for the years prior to the year of the Employee's termination of employment, which amounts shall be paid to the Employee in a single lump sum cash payment no later than thirty (30) days following the date of the Employee's termination of employment; (v) the Employee shall be entitled to receive any bonuses or individual incentive compensation

not yet paid but due and owing to the Employee under the Company's compensation plan or plans for the year of the Employee's termination of employment, which bonuses or individual incentive compensation shall be calculated as if the Employee had remained employed by the Company for the entire year but shall be prorated through the date of the Employee's termination of Employment, and shall be paid in a single lump sum cash payment to the Employee at the time such bonuses or individual incentive compensation are paid to similarly situated employees; and (vi) subject to the terms and conditions of the plans and other documents governing the Employee's compensation and benefits, the Employee shall be entitled to or shall immediately vest 100% in any and all other compensation plans, bonus plans or incentive plans, including any owned or due and owing, that Employee participated in or contributed to at the date of the Employee's termination of Employment but that is not covered by (ii) through (v) preceding.

(d) The severance benefit paid to the Employee pursuant to Section 5(c) shall be in consideration of the Employee's continuing obligations hereunder after such termination, including, without limitation, the Employee's obligations under Section 6. Further, as a condition to the receipt of such severance benefit, the Company, in its sole discretion, may require the Employee to first execute a release, in the form established by the Company, releasing the Company and all Related Parties, and their officers, directors, employees, and agents, from any and all claims and from any and all causes of action of any kind or character, including, but not limited to, all claims and causes of action arising out of the Employee's employment with the Company or any of the Related Parties or the termination of the Employee's employment. The performance of the Company's obligations under Section 5(c), including the Company's payment of the severance benefit, shall constitute full settlement of all such claims and causes of action. The Employee's rights under Section 5(c) are the Employee's sole and exclusive rights against the Company and the Related Parties and the Company's sole and exclusive liability to the Employee under this Agreement, in contract, tort, or otherwise, for the termination of the Employee's employment with the Company. The decision as to whether "cause" exists for termination of the employment relationship of the Employee with the Company and whether and as of what date the Employee has become incapacitated in the manner described in Section 5(a)(i) are delegated to the Board of Directors of the Company for determination. If the Employee or the Employee's legal representative, as the case may be, desire to dispute any determination made by the Board of Directors of the Company under this Section 5(d), the Employee or his legal representative, as the case may be, must notify (a "Dispute Notification") the Company of such desire within fifteen (15) days of the Employee's receipt of notification of such a determination by the Board. Within sixty (60) days of the Company's receipt of a Dispute Notification, the parties shall mediate the dispute in front of an independent mediator acceptable to both the Employee and the Company and shall work in good faith to resolve the dispute at such mediation.

6. Business Opportunities and Intellectual Property; Personal Investments; Covenant not to Compete; Confidentiality. The Employee acknowledges that in the course of his employment by the Company and performance of services on behalf of the Company he will become privy to various business opportunities, economic and trade secrets and relationships of the Company and the Related Parties. Therefore, in consideration of this Agreement and the consummation of the Transaction, the Employee hereby agrees as provided below in this Section 6.

(a) Business Opportunities and Intellectual Property. The Employee:

(i) shall promptly disclose to the Company all business opportunities (including, without limitation, those relating to the business of manufacturing, fabricating, selling, leasing and maintaining of natural gas compressors or the design and manufacture of natural gas flare systems, components and ignition systems) developed by the Employee during the Employment Term, or originated by any third party and brought to the attention of the Employee during the Employment Term, together with information relating thereto (herein collectively called "Business Opportunities");

(ii) shall promptly disclose to the Company any ideas, inventions, discoveries, processes, designs, methods, substances, articles, computer programs and improvements, whether or not patentable or copyrightable (all of the foregoing being hereinafter collectively called "Intellectual Property"), which the Employee discovers, conceives, invents, creates or develops, alone or with others, during the Employment Term, if such discovery, conception, invention, creation or development (A) occurs in the course of the Employee's employment with the Company, or (B) occurs with the use of any of the Company's or the Related Parties' time, materials or facilities, or (C) in the opinion of the Board of Directors of the Company, relates or pertains in any way to the Company's or the Related Parties' purposes, activities or affairs;

(iii) hereby assigns and agrees to assign to the Company and its successors, assigns or designees, all of the Employee's right, title and interest in and to all Business Opportunities and Intellectual Property that the Employee is obligated to disclose to the Company pursuant hereto; and

(iv) acknowledges and agrees that all Business Opportunities and Intellectual Property constitute the exclusive property of the Company and accordingly agrees that Employee will not (directly or indirectly through any family members), and will not permit any of his controlled affiliates to, (A) invest or otherwise participate alongside the Company or the Related Parties in any Business Opportunities, (B) invest or otherwise participate in any business or activity relating to a Business Opportunity, regardless of whether the Company or any of the Related Parties ultimately participates in such business or activity, or (C) use for any purpose other than on behalf of the Company or the Related Parties, any information pertaining to Business Opportunities.

(b) Personal Investments. Employee agrees that during the Employment Term and the Noncompetition Period, Employee (whether in his own name or in the name of any family members or made by Employee's controlled affiliates) will not make any investments with or in any person or entity (other than the Company) which relates to the business of manufacturing, fabricating, selling, leasing and maintaining of natural gas compressors or the design and manufacture of natural gas flare systems, components and ignition systems.

(c) Confidentiality Obligations. Employee agrees that during the Employment Term and the Noncompetition Period, Employee will not knowingly use, publish, disseminate or otherwise disclose, directly or indirectly, to any person other than the Company or the Related Parties and their respective

officers, directors and employees, any Business Opportunities, Intellectual Property and any other information heretofore or hereafter acquired, developed or used by the Company or any of the Related Parties relating to their business or their operations, properties, prospects, employees, customers, consultants, vendors, joint venture partners or co-investors which constitutes proprietary or confidential information of the Company or any of the Related Parties ("Confidential Information"), including, without limitation, any Confidential Information contained in any customer files, contract files, production records, maintenance records, reports and related data, memoranda, notes, records, drawings, manuals, correspondence, financial and accounting information, customer lists, statistical data and compilations, patents, copyrights, trademarks, trade names, inventions, formulae, methods, processes, agreements, contracts, manuals or any other documents relating to the business of the Company or any of the Related Parties (collectively, the "Company's Business Records"), but excluding any Confidential Information which has become part of common knowledge or understanding in the natural gas compressor industry or otherwise in the public domain (other than from disclosure by Employee in violation of this Agreement), provided, however, this paragraph (c) shall not be applicable to the extent Employee is required to testify in a judicial or regulatory proceeding pursuant to the order of a judge or administrative law judge after Employee requests that such Confidential Information be preserved.

(d) Non-Compete Covenant. Employee agrees that during the Employment Term and the Noncompetition Period, Employee will not knowingly:

(i) engage or participate in any manner, whether directly or indirectly through any family member or as an employee, employer, consultant, agent, principal, partner, more than one percent shareholder, officer, director, licensor, lender, lessor or in any other individual or representative capacity, in any business activity that relates to (A) the business of manufacturing, fabricating, selling, leasing and maintaining of natural gas compressors, (B) the design and manufacture of natural gas flare systems, components and ignition systems, (C) installing and servicing flare stacks and related ignition and control devices or (D) in any other business or activity related to the natural gas compressor industry that is in competition in any manner whatsoever with the business of any of the Company or the Related Parties. The covenant and restrictions in this Section 6(d) pertain to the geographic areas comprised of (x) Midland and Ector Counties, Texas, and all counties adjacent to Midland and Ector Counties, Texas, and (y) Tulsa County, Oklahoma, and all counties adjacent to Tulsa County, Oklahoma (all of such counties being collectively referred to herein as, the "Noncompete Area"); provided, however, such covenant and restrictions shall not preclude the Employee from engaging or participating in the above referenced business activities on behalf of any company that conducts a majority of its business operations outside of the Noncompete Area and whose principal offices are situated outside of the Noncompete Area, or from:

(A) making investments in securities of oil and gas companies, oil and gas service companies, and natural gas compressor companies which are registered on a national stock

exchange, if the aggregate amount owned by Employee and all family members and affiliates does not exceed one percent of such company's outstanding securities; or

(B) maintaining his personal investments (whether in his own name or in the name of any family members), if such personal investments and controlled affiliates do not engage in any business activity that relates to the business of manufacturing, fabricating, selling, leasing and maintaining of natural gas compressors, or the design and manufacture of natural gas flare systems, components and ignition systems, or the installation and servicing of flare stacks and related ignition and control devices; or

(ii) actively solicit, directly or indirectly, any employee (or person who within the preceding ninety (90) days was an employee) of the Company or any of the Related Parties or any other person who is under contract with or employed by the Company or any of the Related Parties, to terminate his or her employment by, or contractual relationship with, such person or to refrain from extending or renewing the same (upon the same or new terms) or to become employed by or to enter into contractual relations with any Persons other than such person or to enter into a relationship with a competitor of the Company or any of the Related Parties.

(e) For purposes of this Agreement, the term "Noncompetition Period" means the period commencing on the date Employee ceases to be employed hereunder and ending on the second anniversary of such date.

(f) The invalidity or non-enforceability of this Section 6 in any respect shall not affect the validity or enforceability of this Section 6 in any other respect or of any other provision of this Agreement. If any provision of this Section 6 shall be held invalid or unenforceable by a court of competent jurisdiction by reason of the geographic or business scope or the duration thereof, such invalidity or unenforceability shall attach only to the scope or duration of such provision and shall not affect or render invalid or unenforceable any other provision of this Agreement, and, to the fullest extent permitted by law, this Agreement shall be construed as if the geographic or business scope or the duration of such provision had been more narrowly drafted so as not to be invalid or unenforceable.

(g) Employee acknowledges that the Company's remedy at law for any breach of the provisions of this Section 6 is and will be insufficient and inadequate and that the Company shall be entitled to equitable relief, including by way of temporary and permanent injunction, in addition to any remedies the Company may have at law.

(h) The provisions of this Section 6 shall survive termination of this Agreement.

(i) The representations and covenants contained in this Section 6 on the part of the Employee will be construed as ancillary to and independent of any other provision of this Agreement. The provisions of this Section 6 shall continue to be binding upon the Employee in accordance with their terms,

notwithstanding the termination of the Employee's employment hereunder for any reason or the Company's breach of any of its obligations under this Agreement.

(j) The parties to this Agreement agree that the limitations contained in this Section 6 with respect to time, geographical area and scope of activity are reasonable. However, if any court shall determine that the time, geographical area or scope of activity of any restriction contained in this Section 6 is unenforceable, it is the intention of the parties that such restrictive covenant set forth herein shall not thereby be terminated but shall be deemed amended to the extent required to render it valid and enforceable.

7. Business Records. The Employee agrees to promptly deliver to the Company, upon termination of his employment hereunder, or at any other time when the Company so requests, all of the Company's Business Records (and all copies thereof and therefrom). The Employee confirms that all of the Company's Business Records (and all copies thereof and therefrom) constitute the exclusive property of the Company and the Related Parties. The obligation of confidentiality set forth in Section 6 shall continue notwithstanding the Employee's delivery of any such documents to the Company. The provisions of this Section 7 shall continue in effect notwithstanding termination of the Employee's employment hereunder for any reason.

8. Divisibility of Agreement. If any term, condition or provision of this Agreement is for any reason rendered void, all remaining terms, conditions and provisions shall remain and continue as valid and enforceable obligations of the parties hereto.

9. Notices. Any notices or other communications required or permitted to be sent hereunder shall be in writing and shall be duly given if personally delivered or sent postage pre-paid by certified or registered mail, return receipt requested, as follows:

(a) If to Employee:

Stephen C. Taylor
1200 Shirley Lane
Midland, Texas 79705

(b) If to the Company:

Natural Gas Services Group, Inc.
2911 S. County Road 1260
Midland, Texas 79706
Attn: Wallace C. Sparkman

Either party may change his or its address for the sending of notice to such party by written notice to the other party sent in accordance with the provisions hereof.

10. Complete Agreement. This Agreement contains the entire understanding of the parties with respect to the employment of Employee and supersedes all prior arrangements or understandings with respect thereto and all

oral or written employment agreements or arrangements between the Company (and any of its subsidiaries) and Employee. This Agreement may not be altered or amended except by a writing, duly executed by the party against whom such alteration or amendment is sought to be enforced.

11. Assignment. This Agreement is personal and non-assignable by Employee. It shall inure to the benefit of any corporation or other entity with which the Company shall merge or consolidate or to which the Company shall lease or sell all or substantially all of its assets and may be assigned by the Company to any affiliate of the Company or to any corporation or entity with which such affiliate shall merge or consolidate or which shall lease or acquire all or substantially all of the assets of such affiliate.

12. Counterparts. This Agreement may be executed in counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties hereto has executed this Agreement in multiple counterparts as of the day and year first above written.

COMPANY:

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace C. Sparkman

Wallace C. Sparkman
Chairman of the Board of Directors

EMPLOYEE:

/s/ Stephen C. Taylor

Stephen C. Taylor

ACCEPTED AND APPROVED THIS
24TH DAY OF AUGUST, 2005.

By: /s/ William F. Hughes, Jr.

William F. Hughes, Jr.
Chairman of Compensation Committee

THIS OPTION GRANTED HEREBY IS NONTRANSFERABLE OTHER THAN BY WILL OR THE LAWS OF DESCENT AND DISTRIBUTION AND THE SHARES UNDERLYING SUCH OPTION MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF NATURAL GAS SERVICES GROUP, INC.

NONSTATUTORY STOCK OPTION AGREEMENT

THIS NONSTATUTORY STOCK OPTION AGREEMENT (this "Agreement"), made effective as of the 24th day of August, 2005, is between Natural Gas Services Group, Inc., a Colorado corporation (the "Company"), and Stephen C. Taylor, an employee of the Company ("Employee").

As an inducement material to entering into employment with the Company and in consideration of the mutual agreements and other matters set forth herein, the Company and Employee hereby agree as follows:

1. Grant of Option. The Company hereby irrevocably grants to Employee a nonstatutory stock option (this "Option") to purchase all or any part of an aggregate of 45,000 shares of the common stock of the Company (the "Stock"), on the terms and conditions set forth herein. This Option is a nonstatutory stock option and not an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Purchase Price. The purchase price of Stock purchased pursuant to the exercise of this Option shall be \$9.22 per share, which has been determined to be the Fair Market Value of the Stock at January 13, 2005, the date the Company employed the Employee. "Fair Market Value" of the Stock for purposes of this Agreement shall mean the closing price of the Stock as reported by the American Stock Exchange on the date the Fair Market Value is to be determined.

3. Exercise of Option. Subject to the earlier expiration of this Option as herein provided, this Option may be exercised by written notice to the Company at its principal executive office addressed to the attention of the Chairman of the Board of Directors of the Company at any time and from time to time after the expiration of six months and one day from the date of grant hereof, but, except as otherwise provided below, this Option shall not be exercisable for more than the percentage of the aggregate number of shares offered by this Option determined by the number of partial or full years from January 13, 2005, the date the Company employed the Employee, to the date of such exercise during which the Employee is employed by the Company, in accordance with the following schedule:

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Date of Exercise	Percentage of Shares That May be Purchased
Less than 1 year	0%
1 year	33.333%
2 years	33.333%
3 years	33.334%

This Option shall not be exercisable in any event after the date (the "Expiration Date") that is ten years from the date of grant hereof. The purchase price of shares as to which this Option is exercised shall be paid in full at the time of exercise (a) in cash (including check, bank draft or money order payable to the order of the Company), or (b) by delivering to the Company shares of Stock having a fair market value equal to the purchase price, or (c) a combination of (a) and (b). No fraction of a share of Stock shall be issued by the Company upon exercise of this Option or accepted by the Company in payment of the exercise price thereof; rather, Employee shall provide a cash payment for such amount as is necessary to effect the issuance and acceptance of only whole shares of Stock. This Option shall be exercised only for 100 shares of Stock or a multiple thereof or for the full number of shares of Stock for which the Option is then exercisable. Unless and until a certificate or certificates representing such shares shall have been issued by the Company to Employee,

Employee (or the person permitted to exercise this Option in the event of Employee's death) shall not be or have any of the rights or privileges of a shareholder of the Company with respect to shares acquirable upon an exercise of this Option.

4. Incapacitation of the Employee. If the Employee's employment with the Company is terminated as a result of the mental or physical incapacity or inability of the employee to perform his duties, this Option shall automatically fully vest on the date of such termination and shall, Subject to Section 3 hereof, be exercisable by the Employee, or personal representative of the Employee until the earlier of the date that is three months after the date of such termination or the Expiration Date. If the Employee, or the personal representative of the Employee, fails to exercise this Option within the time period specified in the preceding sentence, the Option shall automatically terminate.

5. Retirement of Employee. If the Employee's employment with the Company terminates by reason of retirement of the Employee, this Option shall automatically fully vest on the date of such termination and shall, subject to Section 3 hereof, be exercisable by the Employee until the earlier of the date that is three months after the date of such termination or the Expiration Date. If the Employee fails to exercise this Option within the time period specified in the preceding sentence, the Option shall automatically terminate.

6. Death of the Employee. If the Employee dies during the Employee's employment by the Company or within three months after the Employee's termination of employment as a result of incapacitation (as described in Section 4 above) or retirement (as described in Section 5 above), this Option shall

fully vest on the date of the Employee's death, unless already fully vested, and shall, Subject to Section 3 hereof, be exercisable in full by the personal representative or administrator of the Employee's estate or by any person who acquired the right to exercise this Option by bequest or inheritance, but only within the period beginning on the date of his death and ending on the earlier of the one year anniversary of such date or the Expiration Date.

7. Termination of Employment. If Employee's employment with the Company terminates for any reason other than those described in Sections 4, 5 or 6 above, unless Employee is terminated for "cause," this Option shall automatically fully vest on the date of such termination and shall be exercisable in full by the Employee until the earlier of the date that is three months after the date of such termination or the Expiration Date. For purposes of this Agreement, for "cause" shall mean by reason of any of the following: (a) the Employee's conviction of, or plea of nolo contendere to, any felony or to any crime or offense causing substantial harm to the Company or any of its subsidiaries or affiliates (whether or not for personal gain) or involving acts of theft, fraud, embezzlement, moral turpitude or similar conduct; (b) malfeasance in the conduct of the Employee's duties, including, but not limited to, (i) willful and intentional misuse or diversion of any of the Company's or its subsidiaries' or affiliates' funds, (ii) embezzlement, or (iii) fraudulent or willful and material misrepresentations or concealments on any written reports submitted to the Company or any of its subsidiaries or affiliates, (c) material failure to perform the duties of the Employee's employment or material failure to follow or comply with the reasonable and lawful written directives of the Board of Directors of the Company, provided, however, that the Employee shall have been informed, in writing, of such material failure and given a period of not more than 60 days to remedy same; or (d) a material breach by the Employee of the provisions of the written employment agreement then governing the Employee's employment. If the Employee's employment with the Company is terminated for cause, this Option shall be exercisable by Employee until the earlier of the date that is three months after the date of such termination or the Expiration Date, and then only as to the number of shares of Stock that Employee was entitled to purchase hereunder at the time of such termination.

8. Fundamental Change. Upon the occurrence of a Fundamental Change, this Option shall automatically fully vest on the date that is immediately prior to the effective date of such change. For purposes hereof, a "Fundamental Change" shall occur: (a) with respect to the Company on the effective date of any dissolution, merger, consolidation, sale of all or substantially all of the Company's assets, recapitalization or any other type of transaction which results in 51% or more of the Company's common stock being changed into, or exchanged for, different securities of the Company, as applicable, or other securities or interests in other persons or entities, and (b) with respect to the Employee on the effective date of any material change in rank, position or responsibilities of the Employee or decrease in the base compensation of the Employee.

9. Withholding of Tax. To the extent that the exercise of this Option or the disposition of shares of Stock acquired by exercise of this Option results in compensation income to Employee for federal or state income tax purposes, Employee shall deliver to the Company at the time of such exercise or disposition such amount of money or shares of Stock as the Company may require

to meet its obligations under applicable tax laws or regulations, and, if Employee fails to do so, the Company is authorized to withhold from any cash or Stock remuneration then or thereafter payable to Employee any tax required to be withheld by reason of such resulting compensation income. Upon an exercise of this Option, the Company is further authorized in its discretion to satisfy any such withholding requirement out of any cash or shares of Stock distributable to Employee upon such exercise.

10. Tax Gross-Up Payment. If the exercise of this Option results in compensation to Employee taxed at the federal ordinary income tax rate (including any applicable FICA or other income-based taxes) then applicable to Employee, the Company shall pay a tax gross-up payment to Employee in an amount sufficient to place the Employee in the same after-tax position Employee would have been in had such compensation been taxed at the federal capital gains tax rate then applicable to Employee. All determinations required to be made in connection with the calculation and payment of the tax gross-up payment to Employee shall be made by the accounting firm that prepared the Company's corporate tax return for the year preceding the year in which the Employee exercises this Option. Any determinations made by such accounting firm shall be binding on the Employee and the Company; provided, however, if the Employee disagrees with the determinations made by the accounting firm, the Employee shall have the right to verify and appeal such determinations by delivering written notice thereof to the Board of Directors of the Company. Upon the Board of Director's receipt of such notice, the Board shall make the final decision as to the calculation and payment of the gross-up payment, which decision shall be binding on the Employee and the Company. If the Board of Directors does not receive the Employee's written notice of appeal on or before the date that is ten (10) days after the Company's delivery to the Employee of the determinations made by the accounting firm, the Employee shall be deemed to have accepted and agreed to the determinations made by the accounting firm.

11. Status of Stock. Employee understands that at the time of the execution of this Agreement the shares of Stock to be issued upon exercise of this Option have not been registered under the Securities Act of 1933, as amended (the "Act"), or any state securities laws. The Company may, but is not obligated to, effect such a registration in the future. Until the shares of Stock acquirable upon the exercise of this Option have been registered for sale under the Act, the Company will not issue such shares unless the holder of the Option provides the Company with a written opinion of legal counsel, who shall be satisfactory to the Company, addressed to the Company and satisfactory in form and substance to the Company's counsel, to the effect that the proposed issuance of such shares to such Option holder may be made without registration under the Act. If an exemption from registration under the Act is available upon an exercise of this Option, Employee (or the person permitted to exercise this Option in the event of Employee's death), if requested by the Company to do so, will execute and deliver to the Company in writing an agreement containing such provisions as the Company may require to assure compliance with applicable securities laws.

Employee agrees that the shares of Stock which Employee may acquire by exercising this Option shall not be sold, transferred, assigned, pledged or hypothecated in the absence of an effective registration statement for the shares under the Act and applicable state securities laws or an applicable exemption from the registration requirements of the Act and any applicable state securities laws. Employee also agrees that the shares of Stock which Employee may acquire by exercising this Option will not be sold or otherwise disposed of in any manner which would constitute a violation of any applicable securities laws, whether federal or state. In addition, Employee agrees (i) that the certificates representing the shares of Stock purchased under this Option may bear such legend or legends as the Board of Directors of the Company or its Compensation Committee deems appropriate in order to assure compliance with applicable securities laws, (ii) that the Company may refuse to register the transfer of the shares of Stock purchased under this Option on the stock transfer records of the Company if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of any applicable securities law and (iii) that the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of the shares of Stock purchased under this Option.

12. Nontransferability of Option. This Option may not be transferred by Employee otherwise than by will or the laws of descent and distribution. During Employee's lifetime, this Option will be exercisable only by Employee.

13. Authority. This Option is granted by the Company pursuant to the Company's general corporate powers under Sections 7-103-102 and 7-106-205 of the Colorado Revised Statutes.

14. Binding Effect. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Employee.

15. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its officer thereunto duly authorized, and Employee has executed this Agreement, all as of the day and year first above written.

Dated: August 24, 2005.

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace C. Sparkman

Wallace C. Sparkman, Chairman of the Board

AGREED TO:
THIS 24TH DAY OF AUGUST, 2005.

/s/ Stephen C. Taylor

Stephen C. Taylor

Address:

1200 Shirley Lane
Midland, Texas 79705

ACCEPTED AND APPROVED THIS
24TH DAY OF AUGUST, 2005.

By: /s/ William F. Hughes, Jr.

William F. Hughes, Jr.
Chairman of Compensation Committee

FOR IMMEDIATE RELEASE
August 26, 2005

For More Information, Contact:
Wallace Sparkman, Chairman
800-580-1828
Jim Drewitz, Investor Relations
972-355-6070

NATURAL GAS SERVICES GROUP, INC. ANNOUNCES
EMPLOYMENT AND STOCK OPTION AGREEMENTS FOR
PRESIDENT AND CHIEF EXECUTIVE OFFICER

MIDLAND, TEXAS, August 26, 2005 - Natural Gas Services Group, Inc. (AMEX:NGS), a leading equipment and services provider to the oil and natural gas industry, announces Natural Gas Services Group and Stephen C. Taylor, President and Chief Executive Officer of NGS, entered into an Employment Agreement and a Nonstatutory Stock Option Agreement.

Mr. Taylor's employment agreement is for an initial term of three years, subject to earlier termination, and provides for an annual base salary of \$155,000, plus an annual cash bonus of up to 45% of Taylor's base salary that is dependent upon attainment of certain performance thresholds as established from time to time by the Board of Directors of NGS. The employment agreement allows Mr. Taylor to participate in certain insurance, health and other employee benefit plans offered by NGS. The agreement with Taylor provides for a vehicle and moving allowance; severance benefits related to 'fundamental change' circumstances, e.g., upon the occurrence of a change of control; and accelerated vesting of options under certain circumstances. The agreement imposes various restrictive covenants on Mr. Taylor throughout the term of his employment, as well as post-employment non-competition and non-solicitation covenants.

The option granted to Mr. Taylor under the Nonstatutory Stock Option Agreement is a ten-year option to purchase 45,000 shares of common stock of NGS at an exercise price of \$9.22 per share, the fair market value of NGS' common stock on January 13, 2005, the date Mr. Taylor was initially hired. The option vests in three equal annual installments commencing on January 13, 2006 and expire on August 24, 2015.

The option agreement and the option granted there under were approved by the Compensation Committee of the Board of Directors of NGS, and are intended to meet the employment inducement grant exception to shareholder approval provided under Section 711(a) of the American Stock Exchange Company Guide.

About Natural Gas Services Group, Inc.
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NGS is a Midland, Texas based company that manufactures, fabricates, sells, leases and services natural gas compression equipment used in the production of natural gas wells. The Company also manufactures and sells flare and flare ignition systems for gas processing and production facilities. NGS has extensive operations in the major gas-producing basins of Texas, New Mexico, Michigan and Oklahoma.

For more information visit the Company's website at www.ngsgi.com.
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Forward-Looking Statements
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The foregoing statements regarding the intentions of Natural Gas Services Group, Inc. with respect to the contemplated redemption and other transactions described above are forward-looking statements under the Private Securities Litigation Reform Act of 1995, and actual results could vary materially from the statements made. Natural Gas Services Group, Inc.'s ability to complete the redemption and other transactions described above successfully is subject to various risks, many of which are outside of its control, including prevailing conditions in the capital markets and other risks and uncertainties as detailed from time to time in the reports filed by Natural Gas Services Group, Inc. with the Securities and Exchange Commission.

