

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 8-K/A

Amendment No. 1

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

Date of Report (Date of earliest event reported): October 18, 2004

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.)

2911 South County Road 1260 Midland, Texas
(Address of Principal Executive Offices)

79706
(Zip Code)

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))

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This Form 8-K/A amends the Form 8-K of Natural Gas Services Group, Inc., or the "Company", dated January 3, 2005 and filed with the Securities and Exchange Commission on January 7, 2005, to include the financial statements of Screw Compression Systems, Inc. and the pro forma financial statements identified in Item 9.01.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The unaudited consolidated financial statements of Screw Compression Systems, Inc. as of August 31, 2004 and for the eight-month periods ended August 31, 2004 and 2003 are included as Exhibit 99.1 hereto.

The audited consolidated financial statements of Screw Compression Systems, Inc. as of December 31, 2003 and for the years ended December 31, 2003 and 2002 are included as Exhibit 99.2 hereto.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed financial information required by this item is included in Exhibit 99.3 hereto. This information includes the Unaudited Pro Forma Combined Balance Sheet as of September 30, 2004, which assumes the Company's acquisition of Screw Compression Systems, Inc. (the "Acquisition") occurred on September 30, 2004; the Unaudited Pro Forma Combined Statement of Operations for the nine-month period ended September 30, 2004; and the Unaudited Pro Forma Combined Statement of Operations for the year ended December 31, 2003. Both statements of operations are presented to reflect the Acquisition as if it occurred at the beginning of the respective periods.

(c) Exhibits

The Exhibit listed below is filed as part of this Current Report on Form 8-K/A.

<u>Exhibit No.</u>	<u>Description</u>
4.1	Stock Purchase Agreement, dated October 18, 2004, by and among Natural Gas Services Group, Inc., Screw Compression Systems, Inc., Paul D. Hensley, Jim Hazlett and Tony Vohjesus (Incorporated by reference to Exhibit 4.1 of Form 8-K Report dated October 18, 2004 and filed with the Securities and Exchange Commission on October 21, 2004)

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<u>Exhibit No.</u>	<u>Description</u>
4.2	Amendment No. 1 to Stock Purchase Agreement, dated as of December 6, 2004, by and among Natural Gas Services Group, Inc., Screw Compression Systems, Inc., Paul D. Hensley, Jim Hazlett and Tony Vohjesus (Incorporated by reference to Exhibit 4.1 of Form 8-K Report dated December 6, 2004 and filed with the Securities and Exchange Commission on December 6, 2004)
4.3	Stockholders' Agreement, dated January 3, 2005, among Natural Gas Services Group, Inc., Paul D. Hensley, Tony Vohjesus and Jim Hazlett (Incorporated by reference to Exhibit 4.3 of Form 8-K Report dated January 3, 2005 and filed with the Securities and Exchange Commission on January 7, 2005)
10.1	Employment Agreement, dated January 3, 2005, between Screw Compression Systems, Inc. and Paul D. Hensley (Incorporated by reference to Exhibit 10.1 of Form 8-K Report dated January 3, 2005 and filed with the Securities and Exchange Commission on January 7, 2005)
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99.1	The unaudited consolidated financial statements of Screw Compression Systems, Inc. as of August 31, 2004 and for the eight-month periods ended August 31, 2004 and 2003 are included as Exhibit 99.1 hereto
99.2	Audited Consolidated Financial Statements of Screw Compression Systems, Inc. for the fiscal years ended December 31, 2003 and 2002
99.3	Unaudited Pro Forma Condensed Financial Statements, including the Unaudited Pro Forma Combined Balance Sheet as of September 30, 2004, the Unaudited Pro Forma Combined Statement of Operations for the nine months ended September 30, 2004, and the Unaudited Pro Forma Combined Statement of Operations for the year ended December 31, 2003

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, President

Dated: January 12, 2005

EXHIBIT INDEX

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SCREW COMPRESSION SYSTEMS, INC.

CONSOLIDATED BALANCE SHEET
(UNAUDITED)
AUGUST 31, 2004

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,241,723
Short-term investments	690,180
Trade accounts receivable, net	2,621,309
Inventory, net	4,770,208
Prepaid expenses and other	45,507
Total current assets	<u>9,368,927</u>
LEASE EQUIPMENT, net	163,674
PROPERTY AND EQUIPMENT, net	2,980,485
GOODWILL AND OTHER INTANGIBLES	550,000
OTHER ASSETS	18,551
Total assets	<u><u>\$ 13,081,637</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current portion of long-term debt	\$ 77,877
Line of credit	850,000
Accounts payable and accrued liabilities	2,963,398
Dividends payable	247,850
Total current liabilities	<u>4,139,125</u>
LONG-TERM DEBT , less current portion	1,338,231
STOCKHOLDERS' EQUITY:	
Common stock, 200,000 shares authorized, par value \$0.01; 100,000 shares issued and outstanding	1,000
Retained earnings	<u>7,603,281</u>
Total stockholders' equity	<u>7,604,281</u>
Total liabilities and stockholders' equity	<u><u>\$ 13,081,637</u></u>

See accompanying note to these consolidated financial statements.

SCREW COMPRESSION SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(UNAUDITED)

	FOR THE EIGHT MONTHS ENDING AUGUST 31,	
	2004	2003
REVENUE:		
Sales, net	\$ 12,856,398	\$ 6,347,844
Service and maintenance income	200,569	88,482
Leasing income and interest	63,600	63,600
Total revenue	<u>13,120,567</u>	<u>6,499,926</u>
COSTS OF REVENUE:		
Cost of sales	9,778,279	4,704,023
Cost of service and maintenance	49,312	13,422
Total costs of revenue	<u>9,827,591</u>	<u>4,717,445</u>
GROSS PROFIT	3,292,976	1,782,481
OPERATING EXPENSES:		
Selling expenses	119,110	149,255
General and administrative	981,809	773,259
Depreciation and amortization	166,797	167,765
Total operating expenses	<u>1,267,716</u>	<u>1,090,279</u>
INCOME FROM OPERATIONS	2,025,260	692,202
OTHER INCOME (EXPENSE):		
Interest income	15,980	23,232
Interest expense	(65,629)	(72,644)
Other income (expense)	(13,982)	6,523
Total other expense	<u>(63,631)</u>	<u>(42,889)</u>
NET INCOME	<u>\$ 1,961,629</u>	<u>\$ 649,313</u>
RETAINED EARNINGS, BEGINNING OF PERIOD	\$ 5,946,437	\$ 5,377,882
NET INCOME	1,961,629	649,313
DISTRIBUTIONS	(304,785)	(221,034)
RETAINED EARNINGS, END OF PERIOD	<u>\$ 7,603,281</u>	<u>\$ 5,806,161</u>
NET INCOME PER COMMON SHARE:		
Basic and diluted	<u>\$ 19.62</u>	<u>\$ 6.49</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	<u>100,000</u>	<u>100,000</u>

See accompanying note to these consolidated financial statements.

SCREW COMPRESSION SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FOR THE EIGHT MONTHS ENDING AUGUST 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,961,629	\$ 649,313
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	166,797	167,765
Changes in current assets:		
Trade and other receivables	(1,304,987)	640,140
Inventory	(2,740,849)	(442,524)
Prepaid expenses and other	27,778	104,064
Changes in current liabilities:		
Accounts payable and accrued liabilities	2,264,819	477,117
Changes in other assets	422	15,806
Net cash provided by operating activities	<u>375,609</u>	<u>1,611,681</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(184,147)	(156,476)
Acquisition of remaining interest in CIP	(550,000)	—
Purchase of short-term investments	(6,580)	(14,343)
Net cash used in investing activities	<u>(740,727)</u>	<u>(170,819)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	850,000	—
Repayments of long-term debt	(63,463)	(111,948)
Dividends on common stock	(118,679)	(221,034)
Change in due to/from stockholder	(28,995)	40,000
Net cash provided by (used in) financing activities	<u>638,863</u>	<u>(292,982)</u>
NET CHANGE IN CASH	<u>273,745</u>	<u>1,147,880</u>
CASH, beginning of year	<u>967,978</u>	<u>353,129</u>
CASH, end of year	<u>\$ 1,241,723</u>	<u>\$ 1,501,009</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 65,629</u>	<u>\$ 72,644</u>
Non-cash distribution	<u>\$ 186,106</u>	<u>\$ —</u>

See accompanying note to these consolidated financial statements.

SCREW COMPRESSION SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. UNAUDITED INFORMATION

The consolidated balance sheet as of August 31, 2004 and the consolidated income statements for the eight months ending August 31, 2004 and 2003 were taken from the Company's books and records without audit. However, in the opinion of management, such information includes all adjustments (consisting only of normal accruals) which are necessary to properly reflect the consolidated financial position of the Company as of August 31, 2004 and the results of operations for the eight months ending August 31, 2004 and 2003. These unaudited consolidated financial statements should be read in conjunction with the December 31, 2003 and 2002 financial statements of Screw Compression Systems, Inc. included in this Form 8-k/A.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Screw Compression Systems, Inc.

We have audited the accompanying consolidated balance sheet of Screw Compression Systems, Inc. (the "Company") as of December 31, 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for the years ended December 31, 2003 and 2002. 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. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003, and the results of its operations and its cash flows for the years ended December 31, 2003 and 2002 in conformity with U.S. generally accepted accounting principles.

/s/ *HEIN & ASSOCIATES LLP*

Dallas, Texas
December 17, 2004

SCREW COMPRESSION SYSTEMS, INC.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2003

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 967,978
Short-term investments	683,600
Trade accounts receivable, net of allowance for doubtful accounts of \$2,198	1,316,322
Inventory, net of allowance of \$73,220	2,029,359
Prepaid expenses and other	73,285
Total current assets	5,070,544
LEASE EQUIPMENT, net	222,450
PROPERTY AND EQUIPMENT, net	2,904,359
OTHER ASSETS	18,973
Total assets	<u>\$8,216,326</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current portion of long-term debt	\$ 90,931
Accounts payable and accrued liabilities	698,579
Dividends payable	90,739
Total current liabilities	880,249
LONG-TERM DEBT, less current portion	1,388,640
COMMITMENT AND CONTINGENCY (Notes 7 and 8)	
STOCKHOLDERS' EQUITY:	
Common stock, 200,000 shares authorized, par value \$0.01; 100,000 shares issued and outstanding	1,000
Retained earnings	5,946,437
Total stockholders' equity	5,947,437
Total liabilities and stockholders' equity	<u>\$8,216,326</u>

See accompanying notes to these consolidated financial statements.

SCREW COMPRESSION SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF INCOME

	FOR THE YEARS ENDED	
	DECEMBER 31,	
	2003	2002
REVENUE:		
Sales, net	\$ 10,572,592	\$ 11,321,135
Service and maintenance income	206,539	250,195
Leasing income and interest	95,400	87,450
Total revenue	<u>10,874,531</u>	<u>11,658,780</u>
COSTS OF REVENUE:		
Cost of sales	7,977,203	8,595,375
Cost of service and maintenance	60,185	42,049
Total costs of revenue	<u>8,037,388</u>	<u>8,637,424</u>
GROSS PROFIT	2,837,143	3,021,356
OPERATING EXPENSES:		
Selling expenses	164,782	169,535
General and administrative	1,307,661	1,463,086
Depreciation and amortization	303,552	262,824
Total operating expenses	<u>1,775,995</u>	<u>1,895,445</u>
INCOME FROM OPERATIONS	1,061,148	1,125,911
OTHER INCOME (EXPENSE):		
Interest income	35,330	32,766
Interest expense	(119,081)	(94,075)
Other income	33,987	27,744
Total other expense	<u>(49,764)</u>	<u>(33,565)</u>
NET INCOME	<u>\$ 1,011,384</u>	<u>\$ 1,092,346</u>
NET INCOME PER COMMON SHARE:		
Basic and diluted	<u>\$ 10.11</u>	<u>\$ 10.92</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	<u>100,000</u>	<u>100,000</u>

See accompanying notes to these consolidated financial statements.

SCREW COMPRESSION SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	COMMON STOCK		RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT		
BALANCES, January 1, 2002	100,000	\$ 1,000	\$ 4,360,538	\$ 4,361,538
Dividends	—	—	(75,002)	(75,002)
Net income	—	—	1,092,346	1,092,346
BALANCES, January 1, 2003	100,000	1,000	5,377,882	5,378,882
Dividends	—	—	(442,829)	(442,829)
Net income	—	—	1,011,384	1,011,384
BALANCES, December 31, 2003	<u>100,000</u>	<u>\$ 1,000</u>	<u>\$ 5,946,437</u>	<u>\$ 5,947,437</u>

See accompanying notes to these consolidated financial statements.

SCREW COMPRESSION SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	DECEMBER 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,011,384	\$ 1,092,346
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	303,552	262,824
Gain on disposal of assets	(20,710)	(11,527)
Changes in current assets:		
Trade and other receivables	403,485	(1,013,582)
Inventory	412,132	(148,301)
Prepaid expenses and other	63,598	(30,204)
Changes in current liabilities:		
Accounts payable and accrued liabilities	(935,698)	(137,808)
Changes in other assets	16,017	73,187
Net cash provided by operating activities	<u>1,253,760</u>	<u>86,935</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(272,446)	(1,893,756)
Proceeds from sale of property and equipment	45,448	30,964
Purchase of short-term investments	(22,503)	(19,746)
Net cash used in investing activities	<u>(249,501)</u>	<u>(1,882,538)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	—	905,811
Repayments of long-term debt	(121,377)	(69,219)
Dividends on common stock	(298,034)	(75,002)
Change in due to/from stockholder	30,001	(56,057)
Net cash provided by (used in) financing activities	<u>(389,410)</u>	<u>705,533</u>
NET CHANGE IN CASH	614,849	(1,090,070)
CASH, beginning of year	<u>353,129</u>	<u>1,443,199</u>
CASH, end of year	<u>\$ 967,978</u>	<u>\$ 353,129</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 119,081</u>	<u>\$ 94,075</u>
Non-cash sale of property and equipment	<u>\$ —</u>	<u>\$ 30,000</u>
Non-cash distribution	<u>\$ 100,737</u>	<u>\$ —</u>

See accompanying notes to these consolidated financial statements.

SCREW COMPRESSION SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Screw Compression Systems, Inc. (the "Company" or "SCS") (a Texas corporation) is engaged in the customizing, manufacturing, and leasing of oil and gas compression systems.

Principles of Consolidation

The Company owns an interest in a Joint Venture, SCS/JALEX dba Cylinders in Plane ("CIP"). Under the terms of the Joint Venture agreement, SCS contributes all capital resources for the development of compressors and its partner contributes his expertise and services. All of the sales of CIP are to SCS. Proceeds from CIP go first to repay capital advances made by SCS. Remaining proceeds are split 50/50 among SCS and its venture partner. Based on the allocation of proceeds as stipulated in the agreement, there were no minority interests owed by the venture partner at December 31, 2003 or 2002. All significant intercompany accounts and transactions have been eliminated in consolidation.

On January 1, 2004, SCS purchased all of the venture partners' interest for cash of \$550,000.

Cash Equivalents

For purposes of reporting cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Short-Term Investments

Short-term investments consist of two certificates of deposit. These certificates of deposit have original maturities of one year.

Accounts Receivable

The Company's trade receivables consist primarily of customer obligations for the sale of compressors due under normal trade terms. The receivables are not collateralized. The Company extends credit based on management's assessment of the customer's financial condition, receivable aging, customer disputes and general business and economic conditions. Management believes the allowance for doubtful accounts for trade receivables of \$2,198 at December 31, 2003 is adequate.

Inventory

Inventory is valued at the lower of cost or market. The cost of inventories was determined by the weighted average method. At December 31, 2003, inventory consisted of the following:

Raw materials	\$ 1,605,085
Work in process	497,494
	<u>2,102,579</u>
Less: inventory allowance	(73,220)
	<u>\$ 2,029,359</u>

SCREW COMPRESSION SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are primarily computed using the straight-line method over the estimated useful lives of the assets, which range from three to forty 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.

Long-Lived Assets

The Company's policy is to periodically review the net realizable value of its long-lived assets 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 its most recent analysis, the Company believes no impairment of long-lived assets exists at December 31, 2003.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was \$38,897 in 2003 and \$45,911 in 2002.

Financial Instruments

Management believes that generally the fair value of the Company's financial instruments at December 31, 2003 approximate their carrying value due to the short-term nature of the investments and the use of prevailing market interest rates for notes payable.

Revenue Recognition

Revenue from the sales of compressors and parts are recognized upon shipment to customers. Revenue from compressor service is recognized upon providing services to the customer. Lease revenue is recognized over the term of the lease agreement. The Company's only lease agreement in 2002 and 2003 is classified as an operating lease.

Per Share Data

Basic earnings per common share are 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 and common stock equivalent shares outstanding during the period. In 2003 and 2002, there were no common stock equivalent shares.

The following table sets forth the computation of basic and diluted earnings per share:

SCREW COMPRESSION SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	YEAR ENDED DECEMBER 31,	
	2003	2002
Numerator:		
Net income	\$ 1,011,384	\$ 1,092,346
Denominator for basic and diluted net income per share:		
Weighted average common shares outstanding	100,000	100,000
Net income per share:		
Basic and diluted	\$ 10.11	\$ 10.92

Description of Leasing Arrangements

The Company leases a compressor package to an entity in the petroleum industry. The Company's cost and accumulated depreciation for the leased compressor as of December 31, 2003 was \$333,675 and \$111,225 respectively. This lease is classified as an operating lease with no fixed term and is on a month-to-month basis.

Income Taxes

The Company, with the consent of its stockholders, has elected to be taxed under sections of federal and state income tax law which provide that, in lieu of corporation income taxes, the stockholders separately account for their pro rata shares of the Company's items of income, deductions, losses and credits. As a result of this election, no income taxes have been recognized in the accompanying financial statements.

Use of Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires the Company's 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. It is at least reasonably possible these estimates could be revised in the near term and the revisions could be material.

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2003:

Building	\$ 2,114,397
Office equipment and furniture	130,922
Software	56,184
Machinery and equipment	1,046,342
Vehicles	460,070
	3,807,915
Less accumulated depreciation and amortization	(903,556)
	\$ 2,904,359

SCREW COMPRESSION SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Depreciation and amortization expense for property and equipment and the leased compressor package described in Note 1 was \$303,552 and \$262,824 for the years ended December 31, 2003 and 2002, respectively.

3. LINE OF CREDIT

The Company has a line of credit with a financial institution that allows for borrowings up to \$1,000,000, bears interest at the prime rate plus .25% (4.25% at December 31, 2003) and requires monthly interest payments with principal due at maturity on September 2, 2004. The line of credit is collateralized by substantially all of the assets of the Company, including a certificate of deposit. At December 31, 2003, the Company had not drawn on this line of credit. This line of credit was extended in 2004 to mature in 2005.

4. LONG-TERM DEBT

Long-term debt at December 31, 2003 consisted of the following:

Note payable to a bank, interest at 6.50%, monthly payments of principal and interest of \$13,789 with remaining principal due upon maturity in January 2008. The note is collateralized by a building.	\$ 1,456,724
Other notes payable for vehicles, various terms	22,847
Total	1,479,571
Less current portion	(90,931)
	<u>\$ 1,388,640</u>

Maturities of long-term debt based on contractual requirements for the years ending December 31 are as follows:

2004	\$ 90,931
2005	79,862
2006	81,739
2007	87,292
2008	1,139,747
	<u>\$ 1,479,571</u>

5. 401(k) PLAN

The Company offers a 401(k) Plan (the "401(k) Plan") to all employees that have reached the age of eighteen and have completed one year of service. The participants may contribute up to the maximum allowed by law. Employer contributions are subject to management discretion and are subject to a vesting schedule of 20% each year after the first year and 100% after six years. The Company contributed \$21,471 and \$19,837 to the 401(k) Plan in 2003 and 2002, respectively.

SCREW COMPRESSION SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK

Sales to one customer in the years 2003 and 2002 amounted to a total of 80% and 83% of consolidated revenue, respectively. No other single customer accounted for more than 10% of the Company's sales in 2003 or 2002. At December 31, 2003, one customer accounted for 90% of the Company's trade accounts receivable.

7. OPERATING LEASE

The Company leases land under a noncancelable agreement that expire in May 2014 and requires monthly rental payments which are adjusted annually for CPI. The total minimum rental commitment as of December 31, 2003 is due in the future years as follows:

2004	\$ 28,142
2005	28,142
2006	28,142
2007	28,142
2008	28,142
Thereafter	152,437
	<u>\$ 293,147</u>

The rent expense for the years ended December 31, 2003 and 2002 total \$53,631 and \$63,891, respectively.

8. CONTINGENCY

The Company is the defendant in a lawsuit related to the purchase of a former owner's stock. The plaintiff is seeking damages of approximately \$80,000. Legal counsel is unable to form an opinion on the likely outcome of the litigation and, therefore, no amounts are recorded in the financial statements.

9. SUBSEQUENT EVENT

On October 18, 2004, the Company entered into an agreement to sell all outstanding shares of the Company's common stock to Natural Gas Services Group ("NGSG"). The agreement calls for a selling price of \$15,000,000, consisting of \$8,000,000 in cash, \$4,000,000 in NGSG capital stock and \$3,000,000 in promissory notes.

NATURAL GAS SERVICES GROUP, INC.**UNAUDITED PRO FORMA COMBINED
FINANCIAL STATEMENTS**

The unaudited pro forma combined financial statements were prepared to present the effect of the acquisition of Screw Compression Systems, Inc. ("SCS") on January 3, 2005, by Natural Gas Services Group, Inc. ("Natural Gas") for \$8.0 million in cash, \$3.0 million in promissory notes and 609,576 shares of Natural Gas common stock. The acquisition of SCS was previously reported in the current report on Form 8-K dated October 18, 2004.

The unaudited pro forma combined balance sheet of September 30, 2004, gives effect to the acquisition of SCS as if the transaction had occurred on September 30, 2004. It combines the September 30, 2004 balance sheet of Natural Gas with the August 31, 2004 balance sheet of SCS. The unaudited pro forma combined statement of operations of Natural Gas for the nine months ending September 30, 2004, gives effect to the transaction above as if it had occurred January 1, 2004. It combines the statement of operations of Natural Gas for the nine months ended September 30, 2004 with the statement of operations of SCS for the eight months ended August 31, 2004. One additional month of SCS operations is added as a pro forma adjustment so it will be comparable with the Natural Gas presentation. The unaudited pro forma combined statement of operations of Natural Gas for the year ending December 31, 2003, gives effect to the transaction above as if it had occurred on January 1, 2003. The unaudited pro forma combined financial statements of Natural Gas have been included as required by the rules of the Securities and Exchange Commission and are provided for comparison purposes only.

The unaudited pro forma combined financial statements of Natural Gas should be read in conjunction with the historical financial statements of Natural Gas and SCS and the related notes thereto. The unaudited pro forma combined financial statements of Natural Gas are based upon assumptions and include adjustments as explained in the notes to the unaudited pro forma combined financial statements, and the actual recording of the transactions could differ. The unaudited pro forma combined financial statements of Natural Gas are not necessarily indicative of the financial results that would have occurred had the acquisition been effective on and as of the dates indicated and should not be viewed as indicative of operations in the future.

**UNAUDITED PRO FORMA COMBINED
BALANCE SHEET
As of September 30, 2004**

	9/30/04 NGS	8/31/04 SCS		Pro Forma Adjustment	Pro Forma Balance
Assets					
Cash and cash equivalents	4,408,170	1,241,723	(a)	(150,000)	5,499,893
Short-term Investments	—	690,180			690,180
A/R	1,187,402	2,626,833			3,814,235
Inventory	3,179,066	4,770,208			7,949,274
Other current assets	178,694	39,983			218,677
Leased Equipment	25,818,667	536,221			26,354,888
PP&E	3,140,203	2,607,938			5,748,141
Investment in SCS	—	—	(a)	7,604,281	—
			(b)	(7,604,281)	
Goodwill	2,682,983	550,000	(a)	2,900,393	6,133,376
Intangible assets			(a)	6,290,000	6,290,000
Other assets	95,501	18,551			114,052
	<u>40,690,686</u>	<u>13,081,637</u>		<u>9,040,393</u>	<u>62,812,716</u>
Liabilities and Stockholders' Equity					
Accounts payable and other current liabilities	1,765,797	3,211,248			4,977,045
Line of credit	521,461	850,000			1,371,461
Current maturities of long term debt	3,145,056	77,877			3,222,933
Long term debt	10,512,495	1,338,231	(a)	11,000,000	22,850,726
Deferred taxes	2,612,013				2,612,013
Stockholders' equity	22,133,864	7,604,281	(a)	5,644,674	27,778,538
			(b)	(7,604,281)	
	<u>40,690,686</u>	<u>13,081,637</u>		<u>9,040,393</u>	<u>62,812,716</u>

**UNAUDITED PRO FORMA COMBINED
STATEMENT OF OPERATIONS
Nine Months Ended September 30, 2004**

	9/30/2004 NGS	8/31/2004 SCS		Pro Forma Adjustment	Pro Forma Balance
Operating Revenues	11,220,529	13,056,967	(c)	1,632,121	25,909,617
COGS	4,903,355	9,886,103	(c)	1,235,763	16,025,221
Operating Expenses:					
Selling	629,545	73,776	(c)	9,222	712,543
G&A	1,368,524	974,330	(c)	121,791	2,464,645
Depreciation and amortization	1,750,851	166,797	(c)	20,850	2,276,025
			(h)	337,527	
Total operating expenses	<u>3,748,920</u>	<u>1,214,903</u>		<u>489,390</u>	<u>5,453,213</u>
Interest expense	(580,083)	(65,629)	(c)	(8,204)	(1,103,916)
			(d)	(450,000)	
Other income	1,496,329	66,656	(c)	8,332	1,571,317
Income taxes	(773,932)	—	(e)	(1,163,429)	(1,937,361)
Preferred dividends	(53,277)	—			(53,277)
Net income available to common shareholders	<u>2,657,291</u>	<u>1,956,988</u>		<u>(1,706,333)</u>	<u>2,907,946</u>
Net Income per Share (basic)	0.49	19.57		(19.58)	0.48
Net Income per Share (diluted)	0.43	19.57		(19.57)	0.43
Weighted Average Common Shares O/S (basic)	5,428,146	100,000		509,576	6,037,722
Weighted Average Common Shares O/S (diluted)	6,216,995	100,000		509,576	6,826,571

**UNAUDITED PRO FORMA COMBINED
STATEMENT OF OPERATIONS
Twelve Months Ended December 31, 2003**

	12/31/2003 NGS	12/31/2003 SCS	Pro Forma Adjustment	Pro Forma Balance
Operating Revenues	12,749,522	10,874,531		23,624,053
COGS	6,056,596	8,037,388		14,093,984
Operating Expenses:				
Selling	678,777	164,782		843,559
G&A	1,613,076	1,307,661		2,920,737
Depreciation and Amortization	1,725,717	303,552	(h)	450,036
Total operating expenses	4,017,570	1,775,995	450,036	6,243,601
Interest expense	(667,122)	(119,081)	(f)	(600,000)
Other income	(4,302)	69,317		65,015
Income taxes	(696,799)	—	(g)	13,471
Preferred dividends	(120,941)	—		(120,941)
Net income available to common shareholders	1,186,192	1,011,384	(1,036,565)	1,161,011
Net Income per Share (basic)	0.24	10.11	(10.14)	0.21
Net Income per Share (diluted)	0.23	10.11	(10.14)	0.20
Weighted Average Common Shares O/S (basic)	4,946,922	100,000	509,576	5,556,498
Weighted Average Common Shares O/S (diluted)	5,252,531	100,000	509,576	5,862,107

- (a) To record acquisition of Screw Compression Systems as if it occurred on 9/30/04
- (b) For consolidation purposes, to record the elimination entry of Natural Gas' investment in Screw Compression Systems
- (c) To record estimated additional month's income and expenses for Screw Compression Systems for 9/30/04
- (d) To record interest expense on amounts borrowed to finance purchase of Screw Compression Systems for 9/30/04
- (e) To record income tax effect of acquisition of Screw Compression Systems, which is a S-Corporation for 9/30/04
- (f) To record interest expense on amounts borrowed to finance purchase of Screw Compression Systems for 12/31/03
- (g) To record income tax effect of acquisition of Screw Compression Systems, which is a S-Corporation for 12/31/03
- (h) To record amortization of intangible assets acquired from Screw Compression Systems based on the preliminary estimate of their values and useful lives.