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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

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

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

NATURAL GAS SERVICES GROUP, INC.

(Name of Registrant as Specified in its Charter)

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

**Important Notice Regarding the Availability of Proxy Materials for the  
Shareholder Meeting to be Held on June 13, 2012**

**The proxy statement and annual report to shareholders are available at  
[www.proxyvote.com](http://www.proxyvote.com).**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To be held on June 13, 2012**

**NOTICE IS HEREBY GIVEN** that the Annual Meeting of Shareholders of Natural Gas Services Group, Inc., a Colorado corporation (the "Company"), will be held at the DoubleTree Hotel, 117 West Wall Street, Midland, Texas 79701 on June 13, 2012 at 8:30 a.m., Central Time, for the purpose of considering and voting upon proposals:

1. To elect two Directors to serve until the Annual Meeting of Shareholders to be held in 2015 or until their successors are elected and qualify;
2. To ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for 2012;
3. To consider an advisory vote on the compensation of our named executive officers; and,
4. To transact such other business as may properly be presented at the meeting or at any adjournment(s) of the meeting.

Only shareholders of record at the close of business on April 16, 2012 are entitled to notice of and to vote at the meeting and at any adjournment(s) of the meeting. On that day, 12,296,499 shares of our common stock were outstanding and entitled to vote.

Our Board of Directors recommends that you vote **FOR** the (i) election of the two director nominees named in this proxy statement, (ii) the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2012; and (iii) approval, on an advisory basis, of the compensation programs of our named executive officers.

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

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Stephen C. Taylor

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

Midland, Texas  
April 27, 2012

**NATURAL GAS SERVICES GROUP, INC.**

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

**PROXY STATEMENT  
FOR THE  
ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON JUNE 13, 2012**

**GENERAL INFORMATION**

We are providing this proxy statement to you as part of a solicitation by the Board of Directors of Natural Gas Services Group, Inc. for use at our 2012 Annual Meeting of Shareholders and at any adjournment or postponement that may take place. We will hold the meeting at the DoubleTree Hotel, 117 West Wall Street, Midland, Texas 79701 on June 13, 2012 at 8:30 a.m., Central Time.

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

We expect to mail, or provide notice and electronic delivery of, this proxy statement and accompanying proxy card to shareholders beginning on or about May 2, 2012.

**TABLE OF CONTENTS**

|  |           |
|--|-----------|
| <b>QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE MEETING.....</b>  | <b>1</b>  |
| <b>HOUSEHOLDING OF PROXY MATERIALS.....</b>  | <b>5</b>  |
| <b>PROPOSAL 1 - ELECTION OF DIRECTORS.....</b>   | <b>6</b>  |
| <b>NOMINEE FOR DIRECTOR FOR A TERM TO EXPIRE IN 2015.....</b>  | <b>6</b>  |
| <i>David L. Bradshaw.....</i>  | <i>6</i>  |
| <i>William F. Hughes, Jr.....</i>  | <i>6</i>  |
| <b>CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2013.....</b>  | <b>7</b>  |
| <i>Kenneth V. Huseman.....</i>   | <i>7</i>  |
| <i>John W. Chisholm.....</i>   | <i>7</i>  |
| <b>CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2014.....</b>  | <b>7</b>  |
| <i>Charles G. Curtis.....</i>  | <i>7</i>  |
| <i>Stephen C. Taylor.....</i>  | <i>8</i>  |
| <b>THE BOARD OF DIRECTORS AND ITS COMMITTEES.....</b>  | <b>9</b>  |
| <b>AUDIT COMMITTEE.....</b>  | <b>9</b>  |
| <b>COMPENSATION COMMITTEE.....</b>   | <b>9</b>  |
| <i>Compensation Committee Interlocks and Insider Participation.....</i>  | <i>10</i> |
| <b>GOVERNANCE AND PERSONNEL DEVELOPMENT COMMITTEE.....</b>   | <b>10</b> |
| <b>NOMINATING COMMITTEE.....</b>   | <b>10</b> |
| <b>DIRECTOR INDEPENDENCE.....</b>  | <b>11</b> |
| <b>THE BOARD'S LEADERSHIP STRUCTURE.....</b>   | <b>11</b> |
| <b>ROLE IN RISK OVERSIGHT.....</b>   | <b>11</b> |
| <b>CODE OF ETHICS.....</b>   | <b>12</b> |
| <b>EXECUTIVE OFFICERS.....</b>   | <b>13</b> |
| <b>EXECUTIVE COMPENSATION.....</b>   | <b>13</b> |
| <b>COMPENSATION DISCUSSION AND ANALYSIS.....</b>   | <b>13</b> |
| <i>Introduction and Overview.....</i>  | <i>13</i> |
| <i>Compensation Philosophy and Objectives.....</i>   | <i>13</i> |
| <i>Assistance Provided to the Committee.....</i>   | <i>14</i> |
| <i>Compensation Components.....</i>  | <i>14</i> |
| <i>Compensation Evaluation Factors.....</i>  | <i>15</i> |
| <i>Executive Compensation Levels of other Companies in the Natural Gas Compression and Related Businesses.....</i> | <i>15</i> |
| <i>Individual and Company Performance - Base Salary and Equity Awards.....</i>                                     | <i>15</i> |
| <i>Specific Company Financial Metrics - Cash Bonuses.....</i>  | <i>15</i> |
| <i>Base Salary.....</i>  | <i>16</i> |
| <i>Short-Term Incentives - Incentive Cash Bonus Program.....</i>   | <i>16</i> |
| <i>Long-Term Incentives - Stock Option and Restricted Stock Awards.....</i>  | <i>18</i> |
| <b>STOCK OPTIONS.....</b>  | <b>18</b> |
| <b>RESTRICTED STOCK AWARDS.....</b>  | <b>18</b> |
| <i>Other Compensation.....</i>   | <i>19</i> |
| <i>Employment Agreements.....</i>  | <i>19</i> |

|   |    |
|---|----|
| <i>Allocation of Amounts and Types of Compensation</i> .....  | 19 |
| <i>Assistance of Compensation Consultants</i> .....   | 19 |
| <i>Change of Control and Severance Arrangements</i> .....   | 20 |
| <i>Stock Ownership/Retention Guidelines</i> .....   | 20 |
| <i>Perquisites</i> .....  | 20 |
| <i>Limit on Deductibility of Certain Compensation</i> .....   | 20 |
| <i>Say-on-Pay</i> .....   | 20 |
| <b>COMPENSATION COMMITTEE REPORT</b> .....  | 21 |
| <b>EXECUTIVE COMPENSATION</b> .....   | 21 |
| <b>GRANTS OF PLAN BASED AWARDS</b> .....  | 23 |
| <b>INCENTIVE CASH BONUS PROGRAM</b> .....   | 24 |
| <b>1998 STOCK OPTION PLAN</b> .....   | 24 |
| <b>2009 RESTRICTED STOCK/UNIT PLAN</b> .....  | 24 |
| <i>General Description</i> .....  | 24 |
| <b>OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END</b> .....   | 27 |
| <b>OPTION EXERCISES AND STOCK VESTED IN 2011</b> .....  | 28 |
| <b>POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL</b> .....   | 28 |
| <b>COMPENSATION OF DIRECTORS</b> .....  | 31 |
| <i>Cash Compensation Paid to Directors</i> .....  | 32 |
| <i>Equity Based Compensation Paid to Directors</i> .....  | 32 |
| <i>Other</i> .....  | 32 |
| <b>COMPENSATION AGREEMENTS WITH MANAGEMENT</b> .....  | 32 |
| <b>LIMITATION ON DIRECTORS' AND OFFICERS' LIABILITY</b> .....   | 33 |
| <b>PROCEDURES FOR REVIEWING CERTAIN TRANSACTIONS</b> .....  | 34 |
| <i>Approval Procedures</i> .....  | 34 |
| <i>Ratification Procedures</i> .....  | 34 |
| <b>PRINCIPAL SHAREHOLDERS AND SECURITY OWNERSHIP OF MANAGEMENT</b> .....  | 35 |
| <b>SECTION 16(A) BENEFICIAL OWNERSHIP OF MANAGEMENT</b> .....   | 37 |
| <b>REPORT OF THE AUDIT COMMITTEE</b> .....  | 37 |
| <b>PROPOSAL 2 - RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b> .....                | 38 |
| <b>PRINCIPAL ACCOUNTANT FEES</b> .....  | 38 |
| <i>Audit Fees</i> .....   | 38 |
| <i>Audit Related Fees</i> .....   | 38 |
| <i>Tax Fees</i> .....   | 38 |
| <i>All Other Fees</i> .....   | 39 |
| <b>AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES</b> .....   | 39 |
| <b>PROPOSAL 3 - CONSIDERATION OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS</b> ..... | 39 |
| <b>SHAREHOLDER PROPOSALS</b> .....  | 40 |
| <b>COMMUNICATIONS WITH THE BOARD OF DIRECTORS</b> .....   | 40 |
| <b>OTHER MATTERS</b> .....  | 41 |
| <b>PROXY CARD</b> .....   | 42 |

**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS  
AND THE MEETING**

**Q: Why am I receiving these materials?**

A:

Our Board is providing these proxy materials to you in connection with our 2012 Annual Meeting of Shareholders, which will take place on Wednesday, June 13, 2012. As a shareholder on the record date for the meeting, you are invited to attend the meeting. We also encourage you to vote on the matters described in this proxy statement.

**Q: What information is contained in these materials?**

A:

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

**Q: What can I vote on at the meeting?**

A:

There are three matters to be voted on at the meeting:

1. To elect two Directors to serve until the Annual Meeting of Shareholders to be held in 2015, or until their successors are elected and qualified;
2. To ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for 2012 and
3. To consider an advisory vote on the compensation of our named executive officers.

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

A:

Our Board recommends that you vote **FOR** each of the two director nominees and **FOR** the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2012. With respect to Proposal #3, the Board of Directors recommends that you vote **FOR** approval, on an advisory basis, of the compensation programs of our named executive officers as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosure contained in the proxy statement set forth under the caption "Executive Compensation" of this proxy statement.

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

A:

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

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

A:

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

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

A:

Holders of our outstanding common stock on April 16, 2012, are entitled to one vote per share on each of the items being voted on at the meeting. We refer to this date as the Record Date. On the Record Date, we had 12,296,499 shares of common stock outstanding. We have no other classes of stock outstanding.

**Q: What shares can I vote?**

A:

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

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

A:

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

*Shareholder of Record*

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

*Beneficial Owner*

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

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

A:

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

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

A:

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

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

A:

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

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

A:

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

**Q: What is the quorum requirement for the meeting?**

A:

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

If a broker indicates on a proxy that it lacks discretionary authority as to certain shares to vote on a particular matter, commonly referred to as “broker non-votes,” those shares will still be counted for purposes of determining the presence of a quorum at the meeting. In the past, if you held your shares in street name and you did not indicate how you wanted your shares voted in the election of directors, your broker, bank, or other nominee was allowed to vote those shares on your behalf in the election of directors as they felt appropriate. Based on recent regulatory changes, your broker, bank or other nominee is no longer able to vote your uninstructed shares in the election of directors on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your broker, bank, or other nominee how to vote in the election of directors, no votes will be cast on your behalf. While broker non-votes are counted for purposes of determining whether or not a quorum exists for the transaction of business, such votes will not be counted for purposes of determining the number of shares represented and voted with respect to an individual proposal, and therefore will have no effect on the outcome of the vote on an individual proposal. Thus, if you do not give your broker specific voting instructions, your shares will not be voted on these “non-routine” matters and will not be counted in determining the number of shares necessary for approval.

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

A:

Directors are elected by a plurality of the votes cast at the Annual Meeting. This means that the two nominees for election as Directors who receive the greatest number of votes cast in favor of their election will be elected to the Board of Directors. The ratification of the appointment of BDO USA, LLP as the Company’s independent registered public accounting firm and the advisory vote on compensation of our named executive officers are approved if the votes cast in favor of the matter exceed the votes cast against the matter. If you are a beneficial owner and do not provide the shareholder of record with voting instructions, your shares may constitute broker non-votes for certain matters (as described in the question and answer immediately above). In tabulating the voting result for a proposal, shares that constitute broker non-votes are not considered as being entitled to vote on that proposal.

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

A:

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

For the advisory vote on compensation of our named executive officers and the ratification of the appointment of BDO USA, LLP as our independent auditors, you may vote “FOR,” “AGAINST,” or “ABSTAIN” with respect to these two proposals. If you elect to abstain from voting on any of these proposals, the abstention will have the same effect as an “AGAINST” vote with respect to such proposal.



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

**Q: Who will count the votes?**

A:

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

**Q: Who may attend the meeting?**

A:

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

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

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

A:

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

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

A:

Yes. For your proposal to be considered for inclusion in our proxy statement for next year's meeting, we must receive your written proposal no later than January 3, 2013. If we change the date of next year's meeting by more than 30 days from the date of this year's meeting, then the deadline is a reasonable time before we begin to print and send our proxy materials. You should also be aware that your proposal must comply with SEC regulations regarding shareholder proposals.

Similarly, for you to raise a proposal (including a director nomination) from the floor at next year's meeting, we must receive a written notice of the proposal no later than March 19, 2013. If we change the date of next year's meeting by more than 30 days from the date of this year's meeting, then we must receive your written proposal at least 150 days before the date of next year's meeting for the proposal to be timely.

**Q: Who is paying for this proxy solicitation?**

A:

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

## HOUSEHOLDING OF PROXY MATERIALS

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

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

## PROPOSAL 1 - ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes (commonly known as a “staggered” Board), each class to be as nearly equal in number as possible. At each annual meeting of shareholders, members of one of the classes, on a rotating basis, are elected for a three-year term. The authorized number of Directors is currently set at nine. However, due to retirements during the past two years, we currently have six directors serving on our Board. Our Board of Directors may fill the vacancies if a qualified candidate is vetted. As of the date of this Proxy Statement, our Directors were as follows:

| Terms Expiring at the<br>2012 Annual Meeting | Terms Expiring at the<br>2013 Annual Meeting | Terms Expiring at the<br>2014 Annual Meeting |
|--|--|--|
| William F. Hughes<br>David L. Bradshaw       | John W. Chisholm<br>Kenneth V. Huseman       | Charles G. Curtis<br>Stephen C. Taylor       |

Shareholders will be electing two Directors at the meeting. The Board is recommending Mr. Bradshaw and Mr. Hughes for re-election to the Board of Directors to serve three year terms expiring at the annual meeting of shareholders in 2015.

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

Biographical information and qualifications for each person nominated as a Director, and for each person whose term of office as a Director will continue after the 2012 Annual Meeting, is set forth below.

### **Nominees for Directors for Terms to Expire in 2015**

#### ***David L. Bradshaw***

David L. Bradshaw, 57, joined our board in December of 2011. Since 2005, Mr. Bradshaw has acted as a consultant in the oil and gas exploration and production sector and has overseen his investments in this area. From August 2007 through November 2009, Mr. Bradshaw served as a Director and Audit Committee Chairman for Triangle Petroleum, a publicly traded company listed on the American Stock Exchange. From November 2007 through November 2008, Mr. Bradshaw served as a Director for Comet Ridge Limited, an Australian company listed on the Australian Securities Exchange. From 1986 to 2005, Mr. Bradshaw worked for Tipperary Corporation, a U.S. public company listed on the American Stock Exchange. During his tenure at Tipperary, the company was involved in oil and gas exploration and production, and natural gas processing and transportation. He held the positions of Chief Executive Officer from 1996 to 2005, Chairman of the Board from 1997 to 2005, Chief Financial Officer from 1990 to 1996 and Chief Operating Officer from 1993 to 1996. Mr. Bradshaw also served as Chief Executive Officer and Chairman of Tipperary Oil & Gas (Australia) Pty Ltd from 1999 to 2005, a subsidiary of Tipperary, which explored for and produced natural gas in Queensland, Australia. From 1983 to 1986, Mr. Bradshaw was an owner and officer of Bradcorp, Inc. a private exploration and production company. Prior to this, Mr. Bradshaw spent six years in public accounting serving predominantly oil and gas clients. Mr. Bradshaw graduated from Texas A&M University with a BBA in Accounting in 1976 and a MBA in 1977, and is also a Certified Public Accountant.

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

#### ***William F. Hughes, Jr.***

William F. Hughes Jr., 59, has served as a Director since December 2003. Mr. Hughes has over 30 years experience in the engineering and construction industry as a Registered Civil Engineer and licensed building contractor. From 1974 to 1979, he served as an officer in the United States Air Force. From 1979 to 1986, he was a project design engineer for Cushman &

Associates. From 1986 to 1996, he served as a Project Manager on a variety of public works and industrial construction projects. Since 1983, Mr. Hughes has been co-owner of The Whole Wheatery, LLC, a natural foods store located in Lancaster, California. Mr. Hughes holds a Bachelor of Science degree in Civil Engineering from the United States Air Force Academy and a Master of Science in Engineering from the University of California at Los Angeles.

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

### **Continuing Directors Whose Terms Expire in 2013**

#### *John W. Chisholm*

John W. Chisholm, 57, was appointed as a Director of Natural Gas Services Group in December 2006 to fill a vacancy created by expanding the size of the Board from seven to eight Directors and was first elected as a Director of Natural Gas Services Group at the annual meeting of shareholders held in June 2007. Mr. Chisholm is the founder of Wellogix, an oil and gas software company that develops software aimed at expediting the exchange of enterprise data and communication of complex engineered services. Mr. Chisholm has served on the Board of Directors of Flotek Industries, Inc. since 2002, is a member of its Compensation Committee and became interim President in August 2009. Flotek Industries, Inc. is a public company which files reports under the Securities Exchange Act of 1934. Prior to founding Wellogix, Mr. Chisholm co-founded and served as President of ProTechnics Company from 1985 until its sale to Core Laboratories in December of 1996. Mr. Chisholm served as Senior Vice President of Global Sales and Marketing of Core Laboratories until 1998, when he started Chisholm Energy Partners, an investment fund focused on mid-size energy service companies. Mr. Chisholm holds a Business Administration degree from Fort Lewis College in Colorado. He currently serves on the Editorial Advisory Board on Middle East Technology of the Oil & Gas Journal.

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

#### *Kenneth V. Huseman*

Kenneth V. Huseman, 60, joined our Board in May 2011. Mr. Huseman has 33 years of well servicing experience. Since 1999, Mr. Huseman has been employed by Basic Energy Services, Inc., a public reporting company traded on the New York Stock Exchange which provides a wide range of well site services to oil and natural gas drilling and producing companies, including completion and remedial services, fluid services, well servicing and contract drilling. He is currently the President and Chief Executive Officer and a Director of Basic Energy Services, Inc. Prior to joining Basic Energy Services, he was Chief Operating Officer at Key Energy Services from 1996 to 1999. He was a Divisional Vice President at WellTech, Inc., from 1993 to 1996. From 1978 to 1993, he was employed at Pool Energy Services Co., where he managed operations throughout the United States, including drilling operations in Alaska. Mr. Huseman graduated with a B.B.A. degree in Accounting from Texas Tech University.

As a 33 year veteran in the natural resource industry, the Company believes that Mr. Huseman brings significant experience to our Board, especially in connection with his background in delivering well site services to the natural gas and oil industry. In addition, Mr. Huseman's accounting educational background is an invaluable resource in connection with the Company's financial reporting obligations.

### **Continuing Directors Whose Terms Expire in 2014**

#### *Charles G. Curtis*

Charles G. Curtis, 79, has served as a Director of Natural Gas Services Group since April 2001. Since 2002, substantially all of Mr. Curtis' business activities have been devoted to managing personal investments. From 1992 until 2002, Mr. Curtis was the President and Chief Executive Officer of Curtis One, Inc., a manufacturer of aluminum and steel mobile stools and mobile ladders. From 1988 to 1992, Mr. Curtis was the President and Chief Executive Officer of Cramer, Inc., a manufacturer of office furniture. Mr. Curtis has a Bachelor of Science degree from the United States Naval Academy and a Master of Science degree in Aeronautical Engineering from the University of Southern California.

Through his manufacturing career and engineering educational background, Mr. Curtis assists the Board and the Company in connection with its compressor manufacturing business. As a past U.S. Naval Officer and U.S. Naval Academy graduate, Mr.

Curtis also brings leadership skills to the Board and Company.

***Stephen C. Taylor***

Stephen C. Taylor, 58, has been President and Chief Executive Officer of Natural Gas Services Group since January 2005. He was elected as a Director of Natural Gas Services Group at the annual meeting of shareholders in June 2005. Effective January 1, 2006, Mr. Taylor was appointed Chairman of the Board of Directors. Immediately prior to joining Natural Gas Services Group, Mr. Taylor held the position of General Manager – US Operations for Trican Production Services, Inc. from 2002 through 2004. Mr. Taylor joined Halliburton Resource Management in 1976, becoming its Vice President – Operations in 1989. Beginning in 1993, he held multiple senior level management positions with Halliburton Energy Services until 2000 when he was elected Senior Vice President/Chief Operating Officer of Enventure Global Technology, LLC, a joint-venture deep water drilling technology company owned by Halliburton Company and Shell Oil Company. Mr. Taylor elected early retirement from Halliburton Company in 2002 to join Trican Production Services, Inc. Mr. Taylor holds a Bachelor of Science degree in Mechanical Engineering from Texas Tech University and a Master of Business Administration degree from the University of Texas at Austin.

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

## THE BOARD OF DIRECTORS AND ITS COMMITTEES

Natural Gas Services Group's Board of Directors held four meetings in 2011. Each Director attended at least 75% of the total number of Board meetings held while such person was a Director. Each Director also attended at least 75% of all of the meetings held by all committees of the Board of Directors for which he served (during the periods that he served). The Board of Directors acts from time to time by unanimous written consent in lieu of holding a meeting.

Our non-management directors hold regularly scheduled executive sessions in which those directors meet without management participation. Generally, the Chairman of the Governance and Personnel Development Committee presides over these sessions. Charles G. Curtis is currently that Chairman.

We typically schedule a Board meeting in conjunction with our annual meeting of shareholders. Although we do not have a formal policy on the matter, we expect our Directors to attend each annual meeting, absent a valid reason, such as illness or an unavoidable schedule conflict. Last year, all of the individuals then serving as Directors attended our 2011 Annual Meeting of Shareholders.

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

### **Audit Committee**

The primary functions of our Audit Committee include:

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

The members of the Audit Committee are David L. Bradshaw (Chairman), Charles G. Curtis, William F. Hughes, Jr., and Kenneth V. Huseman. Our common stock is listed for trading on the New York Stock Exchange, or "NYSE". Under rules of the NYSE, the Audit Committee is to be comprised of three or more Directors, each of whom must be independent. Our Board has determined that all of the members of the Audit Committee are independent, as defined under the applicable NYSE rules and listing standards. In addition, our Board of Directors has determined that David L. Bradshaw is qualified as an "audit committee financial expert" as that term is defined in the rules of the Securities and Exchange Commission. The Audit Committee met four times during the last fiscal year.

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

### **Compensation Committee**

The functions of our Compensation Committee include:

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

The Compensation Committee's policy is to offer the executive officers competitive compensation packages that will permit us to attract and retain individuals with superior abilities and to motivate and reward such individuals in an appropriate fashion in the long-term interests of Natural Gas Services Group and its shareholders. Currently, executive compensation is comprised of salary and cash bonuses and awards of long-term incentive opportunities in the form of stock options under our 1998 Stock Option Plan and restricted stock awards under the 2009 Restricted Stock/Unit Plan.

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

#### *Compensation Committee Interlocks and Insider Participation*

The Compensation Committee members are not officers or employees of our company, and there is not, nor was there during fiscal 2011, any compensation committee interlock (in other words, no executive of our company serves as a Director or on the compensation committee of a company that has one or more executives serving on our Board of Directors or our Compensation Committee).

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

#### **Governance and Personnel Development Committee**

Our Governance and Personnel Development Committee primarily focuses on:

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

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

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

#### **Nominating Committee**

The functions of our Nominating Committee include:

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

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

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

Our Nominating Committee will consider a Director candidate recommended by a shareholder. A candidate must be highly qualified in terms of business experience and be both willing and expressly interested in serving on the Board. A shareholder wishing to recommend a candidate for the Committee's consideration should forward the candidate's name and information about

the candidate's qualifications to Natural Gas Services Group, Inc., Nominating Committee, 508 West Wall Street, Suite 550, Midland, Texas 79701, Attn.: Charles G. Curtis. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment history for at least the past five years indicating employer's names and description of the employer's business, educational background and any other biographical information that would assist the Committee in determining the qualifications of the individual. The Committee will consider recommendations received by a date not later than 120 calendar days before the date our proxy statement was released to shareholders in connection with the prior year's annual meeting for nomination at that annual meeting. The Committee will consider nominations received after that date at the annual meeting subsequent to the next annual meeting.

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

### **Director Independence**

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

### **The Board's Leadership Structure**

Under our Corporate Governance Guidelines, our Chief Executive Officer also serves as our Chairman of the Board, and that person is responsible to the Board for the overall management and functioning of the company. Stephen C. Taylor serves as both Chairman of the Board and our President and Chief Executive Officer ("CEO"). The Board believes this is the most effective Board leadership structure at the present time and believes that Mr. Taylor, in his role as Chairman/CEO, has the ability to execute on both our short-term and long-term strategies necessary for the challenging marketplace in which we compete. The independent directors believe that Mr. Taylor's detailed and in-depth knowledge of the issues, opportunities and challenges facing us and our business make him the best qualified director to develop agendas that ensure that the Board's time and attention are focused on the most critical matters. Further, as the individual with primary responsibility for managing day-to-day operations, Mr. Taylor is best positioned to chair regular Board meetings and ensure that key business issues and risks are brought to the attention of our Board and/or Audit Committee. We believe that the creation of a lead independent director position is not necessary at this time.

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

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

### **Role in Risk Oversight**

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



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

### **CODE OF ETHICS**

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

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

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

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

## EXECUTIVE OFFICERS

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

G. Larry Lawrence, 60, became our Chief Financial Officer, Principal Accounting Officer and Corporate Secretary on July 1, 2011. Previously, Mr. Lawrence was our Controller since September 2010. From June 2006 to August 2010, Mr. Lawrence was self employed as a management consultant doing business as Crescent Consulting. Overlapping this time, from September 2006 to August 2009, he also served as the CFO of Lynx Operating Company. Lynx is a private company engaged in oil and gas production and gas processing activities. From May 2004 through April 2006 Mr. Lawrence served as Controller of Pure Resources, an exploration and production company and wholly owned subsidiary of Unocal Corporation which was acquired by Chevron Corporation. From June 2000 through May 2004, Mr. Lawrence was a practice manager of the Parson Group, LLC, a financial management consulting firm whose services included Sarbanes Oxley engagements with oil and natural gas industry clients. From 1973 through May 2000, Mr. Lawrence was employed by Atlantic Richfield Company where he most recently (from 1993 through 2000) served as Controller of ARCO Permian. Since May 2006, Mr. Lawrence has served as a director of Legacy Reserves, LP, a public reporting company. Mr. Lawrence has a Bachelor of Arts in Accounting, with honors, from Dillard University.

James R. Hazlett, 56, has served as Vice President – Technical Services since June 2005. He also served as Vice President of Sales of Screw Compression Systems, Inc. from 1997 until June 2007 when Screw Compression Systems, Inc. was merged into Natural Gas Services Group. After the merger in June 2007, Mr. Hazlett continues to remain employed by Natural Gas Services Group as Vice President – Technical Services. Mr. Hazlett holds a Bachelor of Science degree from the College of Engineering at Texas A&M University and has over 34 years of industry experience.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### *Introduction and Overview*

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

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

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

#### *Compensation Philosophy and Objectives*

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

- rewards performance and skills necessary to advance our objectives and further the interests of our shareholders;
- is fair and reasonable and appropriately applied to each executive officer; and
- is competitive with compensation programs offered by our competitors.

The overall objectives of our compensation philosophy are to:

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

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

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

#### *Assistance Provided to the Committee*

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

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

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

#### *Compensation Components*

We base our decisions regarding executive compensation primarily on our assessment of company performance, and each executive officer's leadership, performance and individual contributions to our business. The accounting and tax treatment of different elements of compensation has not to date had a significant impact on our use of any particular type of compensation. In reviewing the overall compensation of our officers, we have historically considered and used a mix of the following components or elements of executive compensation:

- base salary;
- cash bonuses under our incentive cash bonus program;
- stock option grants and stock awards;
- retirement and other benefits generally available to all of our employees; and
- limited perquisites.

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

- defined benefit pension plans;

- employee stock purchase/ownership plans;
- supplemental executive retirement plans/benefits; or
- deferred compensation plans.

#### *Compensation Evaluation Factors*

We continue, as we have in the past, to rely on the following factors in evaluating and determining the amount of compensation we pay our executives:

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

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

#### *Executive Compensation Levels of other Companies in the Natural Gas Compression and Related Businesses*

Historically, we have not focused on a specific peer group to evaluate and establish the compensation of our executive officers. This is primarily because our Compensation Committee has not found similarly-situated companies specializing in gas compression services of similar size. In the Committee's experience, most of the gas services companies in our industry offer a broader scope of products and services than we do, and typically are significantly larger, on both a revenue and market capital basis. Thus, the Committee's review of industry compensation has been limited to simply obtaining a broad-based, general understanding of current compensation practices. For this reason, we have not in the past and do not currently consider the specific amounts of executive compensation paid by such companies when evaluating or determining our executive compensation. We do, however, from time to time, consider the types of executive compensation offered by publicly traded gas service companies and the annual increases or decreases on a percentage basis in such compensation.

#### *Individual and Company Performance – Base Salary and Equity Awards*

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

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

#### *Specific Company Financial Metrics – Cash Bonuses*

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

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

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

We believe that our core executive compensation mix of base salary, cash bonuses and equity awards, while fairly limited, presently provides enough diversity for us to link executive compensation to our short-term and long-term objectives. For instance,

base salaries and cash bonuses are closely linked to the short-term objectives of providing reasonable and competitive levels of current annual income, while equity awards are more closely linked to the long-term objectives of earnings per share and increased market value of our common stock.

### *Base Salary*

We provide our executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Each year the Committee receives base salary recommendations from our CEO for all of our executive officers (other than our CEO whose base salary is evaluated by the Committee on an annual basis). The Committee reviews comparative salary data and information gathered by the Committee relative to certain of our competitors and industry peers to gain some general knowledge of what our competitors pay their executive officers. The competitors are certain privately held companies in the natural gas industry that are comparable in size to us. We do not consider the specific amounts of the compensation packages offered by our competitors that are public companies because of the considerable size difference between those companies and us, but we do from time to time consider the types of compensation offered by such competitors and the annual increases or decreases on a percentage basis in such compensation. The Committee determines base salary levels by considering the comparative salary data and information gathered by the Committee in conjunction with the factors described above under the caption "Individual and Company Performance – Base Salary and Equity Awards". We do not give specific weights to any of the factors the Committee considers in determining base salary levels or adjustments thereto.

In 2010, the base salaries for our named executive officers did not change from their 2009 amounts due to a company-wide wage freeze which was put in place in 2009 due to the recession.

In January 2011, our Compensation Committee met to discuss compensation matters concerning Stephen C. Taylor, our President and CEO. Pursuant to the terms of our employment agreement with Mr. Taylor, we reviewed his annual base salary and increased it for 2011 from \$316,000 to \$363,000.

In January 2012, our Compensation Committee met to discuss compensation matters concerning Stephen C. Taylor, our President and CEO. Pursuant to the terms of our employment agreement with Mr. Taylor, we reviewed his annual base salary and increased it for 2012 from \$363,000 to \$417,500, in part and as discussed above, the Committee believes that Mr. Taylor's base salary lags that of other industry peers. In addition, the increase was also made in recognition of Mr. Taylor's:

- (i) maintaining income statement margins in 2011 which exceeded that of competitors;
- (ii) achieving approximately \$15 million of positive cash flow notwithstanding the difficult economic conditions;
- (iii) successful negotiation of a new three year bank line of credit in 2011; and
- (iv) making timely strategic decisions that led to expanding into shale areas, and maintaining focus on limiting expenditures while improving fleet utilization.

With respect to our other two named executive officers other than our CEO, their base salaries for 2012 were set on their respective review dates. For the better part of 2011, James Hazlett, our Vice President of Technical Services, base salary was \$148,500 which was increased in late 2011 to \$163,350. The current base salary of our Vice President and Chief Financial Officer was set at \$130,000 in mid-2011 coincident with his appointment to that position.

### *Short-Term Incentives – Incentive Cash Bonus Program*

The Committee has adopted an Incentive Cash Bonus Program or, the "IBP," that provides guidelines for the calculation of annual non-equity incentive based compensation in the form of cash bonuses to our executives, subject to Committee oversight and modification. The bonuses awarded under the IBP are short-term awards in recognition of the overall performance and efforts made by our executives during a particular year. Each year, the Committee approves the group of executives eligible to participate in the IBP and establishes target award opportunities for such executives. For 2011, the Committee set Mr. Taylor's target award opportunity to up to 70% of his base salary. Target award opportunities for our other two named executives were set at 35% of base salary for 2011.

In 2011, 90% of an executive officer's IBP award was based on achievement of company financial objectives relating to:

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

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

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

- 75% of the bonus amount attributable to a financial component will be paid if we achieve at least 90% of the target amount;
- 100% of the bonus amount attributable to a financial component will be paid if we achieve at least 100% of the target amount; and
- 125% of the bonus amount attributable to a financial component will be paid if we achieve at least 110% of the target amount.

Thus, if we achieve 100% on each of the target levels for each of the three components of the company financial objective portion of the IBP, an executive with a base salary of \$100,000 and a target award opportunity of 40% will receive a cash bonus of \$40,000, assuming the executive receives the full amount (10%) of the individual performance portion of the IBP. If we do not achieve at least 90% of the target levels for all of the components, the Committee will decrease the target award opportunity for each executive officer by a percentage of up to 30% for each component in which there is a shortfall.

For instance, if we meet all target levels except that we achieve less than 90% of the target level for EBITDA, the Committee will decrease the executive's award opportunity by up to 30%. With respect to the executive described above, the award opportunity for such executive would be reduced from 40% to as low as 28% (the target bonus of 40% multiplied by 70%), in which case the executive would receive a cash bonus of \$28,000, assuming the executive receives the full amount of the individual performance portion of the IBP. Had we achieved at least 90% of the target level for EBITDA, but less than 100%, then the executive would receive 75% of the bonus amount attributable to EBITDA component, which would equate to an additional \$9,000 for a total bonus of \$37,000.

Similarly, if we achieve at least 110% of each of the three financial component targets, then the executive described above would receive a bonus of \$49,000 (\$4,000 for the individual performance portion plus \$45,000 for achieving at least 110% on each of the three financial components calculated by multiplying \$40,000 times 90% times 125%).

The following table sets forth the bonus financial criteria and target thresholds set by the Committee and compares such thresholds to actual performance achieved and the resulting bonus payout percentages earned in 2011:

#### 2011 Incentive Cash Bonus Program

| Bonus Criteria          | Base Target   | Actual Performance | % of Base Achieved | Base Target Payout |
|-------------------------|---------------|--------------------|--------------------|--------------------|
| Revenue                 | \$ 63,199,285 | \$ 65,157,757      | 103.1%             | 30.0%              |
| Net Income before Taxes | 15,823,354    | 15,629,166         | 98.8%              | 22.5%              |
| EBITDA                  | 27,723,354    | 29,678,405         | 107.1%             | 30.0%              |
| Personal Performance    | —             | —                  | —                  | 10.0%              |
| Total                   | —             | —                  | —                  | 92.5%              |

The following table sets forth the maximum bonus eligibility set by the Committee for 2011 for each of our named executive officers, and based upon the payout percentages noted in the table above, the bonus payout amount earned by each named executive for 2011 under our Incentive Cash Bonus Program:

| Name              | Title                   | Base Salary | Max Bonus Eligibility | Max Bonus \$ | Bonus Payout % | Bonus Payouts |
|-------------------|-------------------------|-------------|-----------------------|--------------|----------------|---------------|
| Stephen C. Taylor | President & CEO         | \$363,000   | 70%                   | \$254,100    | 92.5%          | \$235,043     |
| G. Larry Lawrence | Chief Financial Officer | \$130,000   | 35%                   | 45,000       | 92.5%          | \$42,088      |
| James R. Hazlett  | VP- Technical Services  | \$163,350   | 35%                   | \$57,173     | 92.5%          | \$52,885      |

As noted in the tables above, actual financial performance for 2011 exceeded the gross revenue and EBITDA target financial thresholds; thus, 100% of the maximum bonus that could have been earned was awarded. In addition, actual net income before taxes for 2011 was nearly 99% of the target financial threshold set by our Board. Thus, 75% of of the maximum bonus attributable to the net income before taxes threshold was awarded. Finally, with respect to the personal performance criteria, the Committee awarded Messrs. Taylor, Lawrence and Hazlett the maximum amount payable under this component, or 10% of the maximum bonus amount that could have been earned in 2011. In addition to the Committee's non-quantitative evaluation of each executive's performance, the Committee made this award in recognition of the Company's (i) continuing to maintain income statement margins which exceeded that of competitors, (ii) achieving in 2011 a 21% increase in revenues, a 31% increase in operating income, a 40% increase in net income and a 27% increase in EBITDA, (iii) maintaining a strong cash balance of approximately \$16.4 million, (iv) favorable renegotiation of its credit line, (v) increase in rental rates by 2% notwithstanding depressed natural gas prices, and (vi) improved safety performance.

#### *Long-Term Incentives – Stock Option and Restricted Stock Awards*

We consider stock options and restricted stock to be a type of long-term incentive compensation that motivates our executive officers to work toward our long-term growth and allows them to participate in the growth and profitability of Natural Gas Services Group. We believe that stock options and restricted stock align the interests of our executive officers with our shareholders in that our executive officers will benefit from the options only to the extent that the value of our common stock increases. The number of options and shares of restricted stock granted to an executive officer is based on a subjective determination of an officer's individual performance and his current contributions and potential for future contributions to the overall performance of Natural Gas Services Group.

#### **Stock Options**

All stock options are granted under our 1998 Stock Option Plan, as amended, except one stock option grant was granted outside of the plan in August 2005 to Stephen C. Taylor, our Chief Executive Officer, as an inducement grant under the terms of his employment agreement. We do not grant discounted options and exercise prices are not based on a formula. Options granted under our 1998 Stock Option Plan are "at-the-money." In other words, the exercise price of the option equals the market price of the underlying stock on the actual date of grant.

Except with respect to an annual option grant or similar equity award required under the employment agreement with Mr. Taylor, the Compensation Committee does not have any specific program or plan with regard to the timing or dating of option grants, except that it has been the Committee's practice to grant options within thirty days after Natural Gas Services Group's quarterly or annual earnings releases. The Committee's practice as to when options are granted has historically been made at the discretion of the Committee. Generally, option grants to executives and other employees have been made at the same time. We have not and do not plan to purposefully time the release of material non-public information for the purpose of affecting the value of executive compensation.

#### **Restricted Stock Awards**

In 2009, we adopted the 2009 Restricted Stock/Unit Plan and it went into effect upon its approval by our shareholders at our 2009 annual meeting. As with our stock option plan, the Compensation Committee does not have any specific program or plan with regard to the timing or dating of restricted stock or unit grants. However, the Committee's practice will likely be to grant awards within thirty days after Natural Gas Services Group's quarterly or annual earnings releases. We have not and do not plan to purposefully time the release of material non-public information for the purpose of affecting the value of executive compensation. On January 25, 2012, the Compensation Committee awarded 70,000 shares of restricted common stock to our

three named executive officers as set forth in column (i) of the “Summary Compensation Table” on page 21 and column (e) of the “Grants of Plan-Based Awards for Fiscal 2011” on page 23. 30,000 of the restricted shares were awarded to Stephen C. Taylor, our Chief Executive Officer, pursuant to the terms of his employment agreement. We also awarded Mr. Taylor an additional 20,000 restricted shares and our other two named executive officers 10,000 restricted shares each in connection with our review of their performance in 2011. The restricted shares issued to Messrs. Hazlett and Lawrence vest in annual one-third installments beginning on January 25, 2013, with Mr. Taylor's restricted shares subject to a one year vesting requirement. All of the restricted shares are subject to acceleration (an “Acceleration Event”) and will immediately vest in the case of (i) death, disability, or retirement of the recipient employee, or (ii) a change of control in the Company, as set forth in the Restricted Stock Plan. The awards were made in recognition of the Company's (i) continuing to maintain income statement margins which exceeded that of competitors, (ii) achieving in 2011 a 21% increase in revenues, a 31% increase in operating income, a 40% increase in net income and a 27% increase in EBITDA, (iii) maintaining a strong cash balance of approximately \$16.4 million, (iv) favorable renegotiation of its credit line, (v) increase in rental rates by 2% notwithstanding depressed natural gas prices, and (vi) improved safety performance.

#### *Other Compensation*

We maintain a 401(k) retirement plan in which all of our executives and employees are eligible to participate. We match executive and employee contributions to our 401(k) plan, on an equal percentage basis, with cash contributions. The Company matching portion is equal to one-half of the employee's annual contribution up to a maximum of 3% of the employee's salary. Our matching amounts for our executive officers are included in column (i) of the “Summary Compensation Table” on page 21.

Other than the reductions that can occur with respect to the target award opportunities of our executives under the IBP, we do not have a written policy or formula regarding the adjustment, reduction or recovery of awards or payments if company performance measures are restated or adjusted in a manner that would reduce the award or payment. However, the Committee does consider compensation realized or potentially realizable from prior compensation awards in setting new types and amounts of compensation, the result of such consideration being varying increases in annual salaries and cash bonuses, with percentage increases in some cases being smaller than previous years.

#### *Employment Agreements*

On October 25, 2008, we entered into a new five year written employment agreement with Stephen C. Taylor, our President and Chief Executive Officer. We do not have written employment agreements with any of our other executive officers.

The employment agreement of Mr. Taylor provides for, among other things, base salary, incentive cash bonuses under the IBP, and insurance, medical and other benefits generally available to our other employees. Mr. Taylor's employment agreement also contained change of control and severance provisions, as referenced under the caption “Change of Control and Severance Arrangements” below and more particularly described under the caption “Potential Payments Upon Termination or Change of Control” on page 28. More information regarding the above-referenced employment agreement is provided under the heading “Compensation Agreements with Management” on page 32.

#### *Allocation of Amounts and Types of Compensation*

Other than the stock options and restricted stock awards we grant to our executives from time to time and the determinations made by the Committee as to specific target award opportunities under our IBP, the allocation of different amounts and types of compensation has not been a consideration for us. The Committee has not adopted a specific policy or target for the allocation between amounts or types of compensation. Since becoming a publicly held company in October 2002, the compensation we have paid to our executive officers has emphasized the use of cash rather than non-cash compensation, although with the adoption of our 2009 Restricted Stock/Unit Plan, we have increased the use of stock awards in our compensation package. We believe that the use of stock awards in our compensation package will align the interests of our management and employees with our stockholders. Notwithstanding moderately increasing the use of stock-based compensation, we intend to maintain and continue our practice of having a simplified, but effective and competitive, compensation package.

#### *Assistance of Compensation Consultants*

Although the Committee has the authority to retain, at the expense of Natural Gas Services Group, compensation consultants, the Committee has not in the past sought or relied on an outside compensation consultant to evaluate or establish the compensation we pay our executives. While the Committee believes the executive compensation we pay is fair and generally competitive within the natural gas compression industry, the Committee tends to target pay within approximately 20% of what it believes to be the industry median. This approach helps ensure that our executive compensation remains reasonable and lessens



the need for an outside consultant to validate such compensation. Our Committee, nevertheless, understands the value of an outside compensation consultant, and in light of our growth over the last five years and the increased level of competition within the natural gas compression industry for attracting and retaining talented executives, may consider retaining a compensation consultant to help the Committee better evaluate our executive compensation.

#### *Change of Control and Severance Arrangements*

Our 1998 Stock Option Plan, as amended, and our 2009 Restricted Stock/Unit Plan contains change of control provisions. In addition, Mr. Taylor's employment agreement contains change of control and severance provisions. Information regarding these provisions is provided under the caption "Potential Payments Upon Termination or Change of Control" on page 28.

#### *Stock Ownership/Retention Guidelines*

We have not in the past had written guidelines or policy statements that required our executives to maintain specified levels of stock ownership or adhere to specified "holding" practices with regard to our common stock.

#### *Perquisites*

We provide limited perquisites to our executives. The primary perquisites include allowing our executives a choice of receiving an automobile allowance or personal use of a company-provided automobile and matching contributions made by Natural Gas Services Group under our 401(k) plan. Although we provide Mr. Taylor with one club membership, since his use of the club is limited solely for business entertainment, we have not considered it to be a perquisite and have not valued it as such for inclusion in column (i) of the Summary Compensation Table on page 21.

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

As part of our negotiations with Mr. Taylor relating to his compensation under his employment agreement and as an inducement to Mr. Taylor to join our employment, we agreed to make a cash payment to Mr. Taylor upon his exercise of the stock option granted to him in August 2005 in an amount sufficient to place Mr. Taylor in the same after-tax position he would be in if the income recognized by Mr. Taylor upon his exercise of the stock option were taxed at the then applicable Federal capital gains tax rate. Mr. Taylor is responsible for all tax due with respect to this cash payment.

#### *Limit on Deductibility of Certain Compensation*

Provisions of the Internal Revenue Code that restrict the deductibility of certain compensation over \$1 million dollars per year have not been a factor in our considerations or recommendations. Section 162(m) of the Code currently imposes a \$1 million limitation on the deductibility of certain compensation paid to specified executives. Excluded from the limitation is compensation that is "performance based." For compensation to be performance based, it must meet certain criteria, including being based on predetermined objective standards approved by shareholders. The Committee has not taken the requirements of Section 162(m) into account in designing executive compensation. If the compensation level of any executive officer approaches \$1 million for purposes of Section 162(m), the Committee will assess the implications of Section 162(m) and determine what action would be appropriate, which may be influenced by factors other than full tax deductibility.

#### *Say-on-Pay*

At our 2011 Annual Meeting of Stockholders held in June 2011, we submitted two proposals to our stockholders regarding our executive compensation practices.

The first was an advisory vote on the 2010 compensation awarded to our named executive officers (commonly known as a "say-on-pay" vote). Excluding broker non-votes, our stockholders approved our 2010 compensation with 98.2% of the shares voted in favor of this proposal.

We believe that the outcome of our say-on-pay vote indicates our stockholders' support of our compensation approach, specifically our efforts to retain and motivate our named executive officers. In light of this stockholder support, our Compensation Committee determined not to change its approach to 2011 compensation as described in this proxy statement. The Compensation Committee will continue to consider the outcome of say-on-pay votes when making future compensation decisions for our named executive officers.

The second proposal was a vote on the frequency of future stockholder advisory votes regarding compensation awarded to named executive officers (commonly known as a “say-when-on-pay” vote). The frequency of once every year received the highest number of votes cast. Based on these results, our board of directors determined that we will hold our say-on-pay votes annually unless our Board determines that a different frequency is advisable.

### Compensation Committee Report

The Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on its review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our proxy statement for the 2012 Annual Meeting of Shareholders.

#### Members of the Compensation Committee

William F. Hughes, Jr. (Chairman)

John W. Chisholm

Kenneth V. Huseman

### Executive Compensation

The table below sets forth the compensation earned by our CEO, Stephen C. Taylor, and our other named executive officers for services rendered to us for the fiscal years ended December 31, 2009, 2010 and 2011.

**Summary Compensation Table**

| Name and Principal Position                          | Year | Salary (\$) | Bonus <sup>(1)</sup> (\$) | Stock Awards (\$) <sup>(2)</sup> | Option Awards (\$) <sup>(3)</sup> | Non-Equity Incentive Plan Compensation <sup>(4)</sup> | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation (\$) <sup>(5)</sup> | Total (\$)   |
|--|------|-------------|---------------------------|----------------------------------|-----------------------------------|---|---|--|--------------|
| (a)  | (b)  | (c)         | (d)                       | (e)                              | (f)                               | (g)   | (h)   | (i)  | (j)          |
| Stephen C. Taylor, Chairman, President & CEO         | 2011 | \$ 363,000  | \$ 3,786                  | \$ 1,107,500                     | \$711,871 <sup>(6)</sup>          | \$ 235,043  | —   | \$ 13,062                                  | \$ 2,434,262 |
|  | 2010 | 316,000     | 3,160                     | 184,778                          | 380,011 <sup>(7)</sup>            | 18,960  | —   | 13,082                                     | 915,991      |
|  | 2009 | 311,269     | —                         | 79,000                           | 349,340 <sup>(8)</sup>            | —   | —   | 10,505                                     | 750,114      |
| G. Larry Lawrence, Chief Financial Officer           | 2011 | 114,615     | 1,356                     | 225,150                          | —                                 | 42,088  | —   | 12,746                                     | 395,955      |
|  | 2010 | —           | —                         | —                                | —                                 | —   | —   | —  | —            |
|  | 2009 | —           | —                         | —                                | —                                 | —   | —   | —  | —            |
| James R. Hazlett, Vice President, Technical Services | 2011 | 148,500     | 1,549                     | 225,150                          | 88,334 <sup>(9)</sup>             | 52,885  | —   | 28,267                                     | 544,685      |
|  | 2010 | 135,000     | 4,725                     | 21,265                           | 59,824 <sup>(10)</sup>            | —   | —   | 11,795                                     | 233,959      |
|  | 2009 | 137,308     | —                         | 23,625                           | 45,753 <sup>(11)</sup>            | —   | —   | 10,633                                     | 217,319      |

(1) The amounts reflected in column (d) reflect payments under the company's profit sharing program administered to all employees. This program was administered as a Christmas Bonus in previous years.

(2) The amounts in column (e) reflect the grant date fair value of stock granted under our 2009 Restricted Stock/Unit Plan.

(3) The amounts in column (f) reflect the dollar amounts recognized for financial statement reporting purposes for the fiscal years ended December 31, 2009, 2010 and 2011, in accordance with FASB ASC Topic 718, associated with stock option grants under our 1998 Stock Option Plan. Assumptions used to calculate these amounts are included in footnote 9 to our audited financial statements for the fiscal year ended December 31, 2009, in footnote 8 to our audited financial statements for the fiscal year ended December 31, 2010, and in footnote 8 to our audited financial statements for the

fiscal year ended December 31, 2011.

- (4) The amounts in column (g) reflect the cash bonus awards to the named executive officers under our Incentive Cash Bonus Program, which is discussed in further detail on page 16 under the caption “Short-Term Incentives - Incentive Cash Bonus Program.”
- (5) The amounts shown in column (i) include matching contributions made by Natural Gas Services Group to each named executive officer under our 401(k) plan and the aggregate incremental cost to Natural Gas Services Group of perquisites provided to our named executive officers as follows:

| Name              | Year | Automobile Allowance | Personal Use of Company Provided Automobiles | Additional Incremental Portion of Health Insurance Premiums Paid for Officers Only | 401(k) Plan | Total <sup>(a)</sup> |
|-------------------|------|----------------------|--|--|-------------|----------------------|
| Stephen C. Taylor | 2011 | \$ —                 | \$ 1,237                                     | \$ 5,220   | \$ 6,605    | \$ 13,062            |
|                   | 2010 | —                    | 1,237  | 5,220  | 6,625       | 16,242               |
|                   | 2009 | —                    | 1,237  | 1,559  | 4,598       | 10,505               |
| G. Larry Lawrence | 2011 | 10,200               | —  | —  | 1,190       | 11,390               |
|                   | 2010 | —                    | —  | —  | —           | —                    |
|                   | 2009 | —                    | —  | —  | —           | —                    |
| James R. Hazlett  | 2011 | 10,200               | —  | 13,032   | 3,846       | 27,078               |
|                   | 2010 | 3,531                | —  | 4,455  | 3,809       | 13,145               |
|                   | 2009 | —                    | 485  | 5,589  | 3,185       | 10,634               |
| Total             | 2011 | \$ 20,400            | \$ 1,237                                     | \$ 18,252  | \$ 11,641   | \$ 51,530            |
|                   | 2010 | \$ 3,531             | \$ 1,237                                     | \$ 19,515  | \$ 14,765   | \$ 54,323            |
|                   | 2009 | \$ —                 | \$ 1,722                                     | \$ 12,999  | \$ 14,519   | \$ 44,446            |

(a) The amounts reflected in this column include a nominal cash Christmas bonus paid to each of the named executive officers in the fiscal years ended December 31, 2009 and 2010.

- (6) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2011 in accordance with FASB ASC Topic 718, for (a) 13,333 shares of common stock that vested on January 15, 2011 under the stock option granted to Mr. Taylor on January 15, 2008, (b) 8,333 shares of common stock that vested on September 10, 2011 under the stock option granted to Mr. Taylor on September 10, 2008, (c) 10,000 shares of common stock that vested on January 28, 2011 under the stock option granted to Mr. Taylor on January 28, 2009 and (d) 10,000 shares of common stock that vested on January 18, 2011 under the stock option granted to Mr. Taylor on January 18, 2010.
- (7) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2010, in accordance with FASB ASC Topic 718, for (a) 13,333 shares of common stock that vested on January 15, 2010 under the stock option granted to Mr. Taylor on January 15, 2008, (b) 8,333 shares of common stock that vested on September 10, 2010 under the stock option granted to Mr. Taylor on September 10, 2008, (c) 10,000 shares of common stock that vested on January 28, 2011 under the stock option granted to Mr. Taylor on January 28, 2009 and (d) 10,000 shares of common stock that vested on January 18, 2011 under the stock option granted to Mr. Taylor on January 18, 2010.
- (8) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2010, in accordance with FASB ASC Topic 718, for (a) 7,500 shares of common stock that vested on November 21, 2009 under the stock option granted to Mr. Taylor on November 21, 2006, (b) 13,333 shares of common stock that vested on January 15, 2009 under the stock option granted to Mr. Taylor on January 15, 2008, (c) 8,333 shares of common stock that vested on September 10, 2009 under the stock option granted to Mr. Taylor on September 10, 2008 and (d) 10,000 shares of common stock that vested on January 28, 2010 under the stock option granted to Mr. Taylor on

January 28, 2009 and (e) 23,852 shares of common stock that vested on March 17, 2010 under the stock option granted to Mr. Taylor on March 17, 2009.

(9) This reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year end December 31, 2011 in accordance with FASB ASC Topic 718, for (a) 1,333 shares of common stock that vested on September 10, 2011 under the stock option granted to Mr. Hazlett on September 10, 2008 and (b) 3,333 shares of common stock that vested on December 9, 2011 under the stock option granted to Mr. Hazlett on December 9, 2009.

(10) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2009, in accordance with FASB ASC Topic 718, for: (a) 1,334 shares of common stock that vested on September 10, 2011 under the stock option granted to Mr. Hazlett on September 10, 2008, and (b) 3,333 shares of common stock that vested on December 9, 2010 under the stock option granted to Mr. Hazlett on December 9, 2009.

(11) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2009, in accordance with FASB ASC Topic 718, for: (a) 1,334 shares of common stock that vested on September 10, 2010 under the stock option granted to Mr. Hazlett on September 10, 2008, (b) 7,589 shares of common stock that vested on March 17, 2010 under the stock option granted to Mr. Hazlett on March 17, 2009 and (c) 3,333 shares of common stock that vested on December 9, 2010 under the stock option granted to Mr. Hazlett on December 9, 2009.

## Grants of Plan Based Awards

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

### Grants of Plan-Based Awards for Fiscal 2011

| Name              | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup> |             |              | Estimated Future Payouts Under Equity Incentive Plan Awards |        |              | All Other Stock Awards: Number of Shares of Stock or Units (#) <sup>(2)</sup> | All Other Option Awards: Number of Securities Underlying Option (#) | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards (\$) |
|-------------------|------------|--|-------------|--------------|---|--------|--------------|---|---|---|---|
|                   |            | Threshold (\$)   | Target (\$) | Maximum (\$) | Threshold (#)   | Target | Maximum (\$) |   |   |   |   |
| (a)               | (b)        | (c)  | (d)         | (e)          | (f)   | (g)    | (h)          | (i)   | (j)   | (k)   | (l)   |
| Stephen C. Taylor | 1/27/2011  | —  | —           | —            | —   | —      | —            | 20,000  | —   | \$ 18.15  | \$ 363,000  |
|                   | 1/25/2012  | —  | —           | —            | —   | —      | —            | 50,000  | —   | 14.89   | 744,500   |
| James R. Hazlett  | 6/15/2011  | —  | —           | —            | —   | —      | —            | 5,000   | —   | 15.25   | 76,250  |
|                   | 1/25/2012  | —  | —           | —            | —   | —      | —            | 10,000  | —   | 14.89   | 148,900   |
| G. Larry Lawrence | 6/15/2011  | —  | —           | —            | —   | —      | —            | 5,000   | —   | 15.25   | 76,250  |
|                   | 1/25/2012  | —  | —           | —            | —   | —      | —            | 10,000  | —   | 14.89   | 148,900   |

(1) The Company's only non-equity incentive plan is its Incentive Cash Bonus Program under which annual performance goals and potential cash award amounts are set and paid annually if earned. More information regarding the IBP and performance parameters and awards amounts is provided under the caption "Short Term Incentives - Incentive Cash Bonus Program" beginning on page 16.

(2) The information shown in this column reflects awards of restricted stock earned in 2011 (but issued in early 2012) by certain of our officers pursuant to our 2009 Restricted Stock/Unit Plan.

## **Incentive Cash Bonus Program**

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

The Committee establishes annual target levels for Natural Gas Services Group’s total revenues, EBITDA and net income before taxes and assigns a weight of 30% to each of these components. The executive’s individual performance is assigned a weight of 10%. If during the year Natural Gas Services Group achieves all of the target levels established by the Committee for total revenues, EBITDA and net income before taxes, and it is determined by the Committee that an executive is entitled to the full 10% weight assigned to individual performance, the executive is entitled to receive the maximum cash bonus amount for the executive for that year. If any one of the target levels is not met or it is determined that an executive is not entitled to the full 10% weight assigned to individual performance, the cash bonus award for the executive is reduced accordingly. More information regarding the IBP and the calculation of awards is provided under the caption “Short-Term Incentives – Incentive Cash Bonus Program” on page 16.

## **1998 Stock Option Plan**

Our 1998 Stock Option Plan provides for the issuance of stock options to purchase up to 750,000 shares of our common stock. The purpose of this plan is to attract and retain the best available personnel for positions of substantial responsibility and to provide long-term incentives to employees and consultants and to promote the long-term growth and success of our business. The plan is administered by the Compensation Committee of the Board of Directors. At its discretion, the Compensation Committee determines the persons to whom stock options may be granted and the terms upon which options will be granted. In addition, the Compensation Committee may interpret the plan and may adopt, amend and rescind rules and regulations for its administration. Option awards are generally granted with an exercise price equal to the closing price of our common stock at the date of grant and generally vest based on three years of continuous service and have ten-year contractual terms.

As of December 31, 2011, stock options to purchase a total of 422,239 shares of our common stock were outstanding under the 1998 Stock Option Plan, which includes 20,000 shares underlying stock options granted on March 23, 2010 to our six non-employee directors under the compensation arrangements described under the caption “Compensation of Directors” on page 31.

A total of 293,357 shares of common stock were available at December 31, 2011 for future grants of stock options under the 1998 Stock Option Plan. Since the beginning of 2012, we have issued options for 20,000 shares of common stock which has left 273,357 shares available under the 1998 Stock Option Plan as of the date of this proxy statement.

## **2009 Restricted Stock/Unit Plan**

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

### *General Description*

*Shares Reserved for Issuance under the 2009 Plan.* A total of 300,000 shares of our common stock are reserved for issuance under the 2009 Plan. The number of shares of our common stock available under the 2009 Plan will be subject to adjustment in the event of a stock split, stock or other extraordinary dividend, or other similar change in our common stock or capital structure.

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

Generally, the Committee has the authority, in its discretion, (a) to select officers, directors and employees to whom awards may be granted from time to time, (b) to determine whether and to what extent, awards are granted, (c) to determine the number of shares of our common stock, or the amount of other consideration to be covered by each award, (d) to approve award

agreements for use under the Plan, (e) to determine the terms and conditions of any award (including the vesting schedule applicable to the award), (f) to amend the terms of any outstanding award granted under the Plan, (g) to construe and interpret the terms of the Plan and awards granted, and (h) to take such other action not inconsistent with the terms of the Plan, as the Committee deems appropriate.

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

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

In addition to time-based vesting requirements, the Committee is also authorized to establish performance goals in order for awards to vest. For instance, quantitative performance standards, including, financial measurements such as (a) increase in share price, (b) earnings per share, (c) total shareholder return, (d) operating margin, (e) gross margin, (f) return on equity, (g) return on assets, (h) net operating income, (i) pre-tax profit, (j) cash flow, (k) revenue, (l) expenses, (m) EBITDA, and (n) numbers of customers for various services and products offered by us, or other performance goal requirements may be adopted by the Committee and set forth in the particular restricted stock or RSU agreement which must be met in order for shares to vest.

*Termination of Service.* Unless otherwise set forth in an individual award agreement, the Plan and forms of award agreements provide that in the event a participant's continuous service with us terminates as a result of death, disability or retirement (an "Acceleration Event"), unvested shares or RSUs at the time of termination due to an Acceleration Event will immediately become vested, but only to the extent that such unvested shares or RSUs would have vested within the 12 months following the Acceleration Event. However, the Committee may revise this default provision on an individual basis as it deems advisable. For example, the Committee could elect to accelerate vesting for all unvested shares and/or RSUs upon the occurrence of an Acceleration Event, or conversely provide that all unvested shares and/or RSUs are forfeited upon the occurrence of an Acceleration Event. In the case of a termination of service other than by an Acceleration Event, any unvested shares of RSUs will immediately become null and void, except that with respect to Restricted Stock awards, the Board of Directors may vest any or all unvested shares in its discretion in the case of any termination of service.

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

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

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

*Restricted Stock Units.* Like a restricted stock award, a restricted stock unit is a grant valued in terms of our common stock. Unlike a restricted stock award, none of our common stock is issued at the time the RSU award is granted. Instead, the award is a mere promise to deliver shares of our common stock upon satisfaction of the vesting requirements. Upon satisfaction of the vesting requirements of the award, we then issue and deliver the number of shares subject to the award. If the vesting requirements are not satisfied prior to the end of the vesting period, the units expire and no shares are issued. Since shares of our

common stock are not issued in connection with RSUs until such time as the vesting conditions have been satisfied, participants in the Plan who receive awards of RSUs will not have any voting rights and will not be entitled to dividends until such time as the units vest and shares of our common stock are issued.

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

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

As of April 16, 2012, we had issued 144,886 shares of restricted stock under the 2009 Plan, of which 36,316 have vested and become unrestricted.

## Outstanding Equity Awards at Fiscal Year-End

The following table shows certain information about stock options outstanding as of December 31, 2011 and held by our CEO, Stephen C. Taylor, and each other named executive officer.

### Outstanding Equity Awards at 2011 Fiscal Year-End

| Name<br>(a)              | Option Awards  |  |  |                                   |                               | Stock Awards  |  |  |  |
|--------------------------|--|--|--|-----------------------------------|-------------------------------|---|--|--|--|
|                          | Number of Securities Underlying Unexercised Options (#) Exercisable<br>(b) | Number of Securities Underlying Unexercised Options (#) Unexercisable<br>(c) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)<br>(d) | Option Exercise Price (\$)<br>(e) | Option Expiration Date<br>(f) | Number of Shares of Stock That Have Not Vested (#)<br>(g) | Market Value of Shares of Stock that Have Not Vested (\$)<br>(h) | Equity Incentive Plan Awards: Number of Shares or Other Rights that Have Not Vested (#)<br>(i) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Other Rights that Have Not Vested (\$)<br>(j) |
| <b>Stephen C. Taylor</b> | 45,000   | —  | —  | \$ 9.22                           | 8/26/2015                     | —   | —  | —  | —  |
|                          | 15,000   | —  | —  | \$ 14.22                          | 11/21/2016                    | —   | —  | —  | —  |
|                          | 40,000   | —  | —  | \$ 20.06                          | 1/15/2018                     | —   | —  | —  | —  |
|                          | 25,000   | —  | —  | \$ 17.51                          | 9/10/2018                     | —   | —  | —  | —  |
|                          | 20,000   | 10,000 <sup>(1)</sup>  | —  | \$ 9.95                           | 1/28/2019                     | —   | —  | —  | —  |
|                          | 23,852   | —  | —  | \$ 7.84                           | 3/17/2019                     | —   | —  | —  | —  |
|                          | 10,000   | 20,000 <sup>(2)</sup>  | —  | \$ 19.90                          | 1/18/2020                     | —   | —  | —  | —  |
|                          | —  | —  | —  | —                                 | —                             | 20,000  | \$ 363,000   | —  | —  |
|                          | —  | —  | —  | —                                 | —                             | 50,000  | 744,500  | —  | —  |
| <b>G. Larry Lawrence</b> | —  | 5,000  | —  | \$ 17.81                          | 1/24/2021                     | —   | —  | —  | —  |
|                          | —  | —  | —  | —                                 | —                             | 5,000   | 76,250   | —  | —  |
|                          | —  | —  | —  | —                                 | —                             | 10,000  | 148,900  | —  | —  |
| <b>James R. Hazlett</b>  | —  | 10,000   | —  | \$ 17.81                          | 1/24/2021                     | —   | —  | —  | —  |
|                          | 5,000  | —  | —  | \$ 17.51                          | 9/10/2018                     | —   | —  | —  | —  |
|                          | 6,667  | 3,333 <sup>(3)</sup>   | —  | \$ 17.74                          | 12/9/2019                     | —   | —  | —  | —  |
|                          | —  | —  | —  | —                                 | —                             | 5,000   | 76,250   | —  | —  |
|                          | —  | —  | —  | —                                 | —                             | 10,000  | 148,900  | —  | —  |

(1) Under the stock option granted to Mr. Taylor in January 28, 2009, 20,000 of these shares are currently exercisable and the remaining 10,000 shares became exercisable on January 28, 2012.

(2) Under this stock option granted to Mr. Taylor on January 18, 2010, 10,000 of these shares are currently exercisable, 10,000 shares became exercisable on January 18th, 2012, and the the remaining 10,000 shares will become exercisable on January 18, 2013.

(3) Under this stock option granted to Mr. Hazlett on December 9, 2009, 6,667 of these shares are currently exercisable and the remaining 3,333 shares will become exercisable on December 9, 2012.



## Option Exercises and Stock Vested in 2011

In the table below, we show certain information about (i) the number of shares of common stock acquired upon exercise of stock options by each of the named executive officers in 2011 and the value realized on exercise of the stock options and (ii) stock awards.

| Name              | Option Awards                             |                                 | Stock Awards                         |                           |
|-------------------|---|---------------------------------|--------------------------------------|---------------------------|
|                   | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting | Value Realized on Vesting |
|                   | (a)                                       | (b)                             | (c)                                  | (d)                       |
| Stephen C. Taylor | —   | —                               | 9,104                                | \$ 160,560                |
| G. Larry Lawrence | —   | —                               | —                                    | —                         |
| James R. Hazlett  | —   | —                               | 1,227                                | 22,172                    |

## Potential Payments Upon Termination or Change of Control

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

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

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

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

At December 31, 2011, Mr. Taylor had unvested options and restricted stock awards which were subject to forfeiture as follows:

- option to purchase 20,000 shares of common stock with an exercise price of \$19.90 per share;
- option to purchase 10,000 shares of common stock with an exercise price of \$9.95 per share; and
- restricted stock award for 50,000 shares of common stock.

At December 31, 2011, Mr. Hazlett had unvested options and restricted stock awards which were subject to forfeiture as follows:

- option to purchase 3,333 shares of common stock with an exercise price of \$17.74 per share;
- option to purchase 6,667 shares of common stock with an exercise price of \$17.81 per share; and
- restricted stock award for 17,421 shares of common stock.

At December 31, 2011, Mr. Lawrence had unvested options and restricted stock awards which were subject to forfeiture as follows:

- option to purchase 5,000 shares of common stock with an exercise price of \$17.81 per share;

- restricted stock award for 10,000 shares of common stock; and
- restricted stock award for 5,000 shares of common stock.

Each of these options and restricted stock awards could have become fully exercisable or unrestricted on December 31, 2011 assuming a change of control were to have occurred on that date. In addition, the restricted stock awards would have been issued without restrictions on December 31, 2011, assuming the named executive officer had died, became disabled or retired. The closing price of our common stock on December 31, 2011, was \$14.46 per share. Accordingly, on December 31, 2011, assuming the vesting of the options had been accelerated by the Compensation Committee, there was no potential for Messrs. Taylor, Hazlett or Lawrence to realize any immediate value upon exercise of the options since their exercise price exceeded the market value of our common stock as of that date. Had there been a change in control event or had the named executive officer died, became disabled or retired on December 31, 2011, the vesting terms of the restricted stock awards would have lapsed and the shares would have become unrestricted. As a result, there was a potential for Messrs. Taylor, Hazlett and Lawrence to realize immediate value upon the lapse of restrictions on restricted stock awards as follows: Mr. Taylor -- \$723,000; Mr. Hazlett -- \$245,993; and Mr. Lawrence -- \$216,900.

As described under “Compensation Agreements with Management” on page 32, we entered into a written employment agreement with Stephen C. Taylor, President, CEO and Chairman of the Board in October 2008. Under the employment agreement, Mr. Taylor is eligible for certain benefits in connection with a change in control. These provisions were included in Mr. Taylor’s initial employment agreement with us and were continued in his current agreement as part of our negotiations with Mr. Taylor as to the terms of his employment and as an inducement for him to continue his employ with our company. The change of control and severance provisions were designed to promote stability and continuity with respect to Mr. Taylor’s employment as our CEO and President.

Mr. Taylor’s employment agreement provides that he is entitled to certain severance benefits if his employment was terminated as the result of a “fundamental change” or for any other reason, but excluding the following:

- for “cause”;
- the mental or physical incapacity or inability of Mr. Taylor to perform his duties for a period of 120 or more consecutive days or for multiple periods totaling 180 or more days during any twelve-month period;
- the death of Mr. Taylor; or
- the voluntary retirement or resignation of Mr. Taylor.
- A “fundamental change” is defined in Mr. Taylor’s employment agreement as the occurrence of any of the following:
  - our dissolution, merger or consolidation;
  - the sale of all or substantially all of our assets;
  - the recapitalization or any other type of transaction which resulted in 51% or more of our common stock being changed into, or exchanged for, different securities of ours, or other securities in other entities; or
  - any change in the duties, functions, responsibilities or authority of Mr. Taylor or any decrease in his base salary.

The severance benefits provided to Mr. Taylor upon the occurrence of a fundamental change include:

- a single lump sum cash payment equal to the amount owed through the remaining term of the employment agreement (but not less than 300% of his annual base salary in effect on the date of termination of his employment);
- immediate vesting of all unvested stock options or other equity awards;
- continued health care and insurance benefits and premium payments for a period of 36 months from the date of termination;
- the sum of (i) all bonus or incentive compensation amounts not yet paid but due and owing at the time of termination of employment, and (ii) any bonus or incentive compensation amounts which would have been payable to Mr. Taylor under the employment agreement calculated in a manner as if Mr. Taylor had remained employed by us during the remaining term of the agreement and earned the maximum award level possible; provided, however, that such amount due under item (ii) shall not be less than 300% of the annual bonus or incentive compensation amount that would have been due in the year of termination (once again calculated in a manner as if Mr. Taylor had remained employed by us for the remainder of the year and earned the maximum award level possible); and
- immediate vesting of stock options (or other equity awards) and any other compensation or incentive plans that Mr. Taylor contributed to at the date of termination, except to the extent covered by the benefits listed above.

The table below shows the potential payments to Mr. Taylor under (i) the change of control and severance provisions contained in his employment agreement, (ii) stock options, and (iii) the restricted stock awards. The potential payments are based on Mr. Taylor's salary level and compensation package as of December 31, 2011, and the assumption that the change of control or severance event occurred on December 31, 2011.

**Chief Executive Officer Potential Payments Table**

| Potential Payments and other Benefits upon a Change of Control or Severance | Fundamental Change  | Termination Upon Fundamental Change | Voluntary Resignation or Retirement | Death               | Incapacity or Inability to Perform Duties | Termination for Cause | Termination Without Cause |
|---|---------------------|-------------------------------------|-------------------------------------|---------------------|---|-----------------------|---------------------------|
| Compensation:   |                     |                                     |                                     |                     |   |                       |                           |
| Salary  | \$ —                | \$ 1,089,000                        | \$ —                                | \$ —                | \$ —                                      | \$ —                  | \$ 1,089,000              |
| Short-Term Incentive:<br>Compensation-Cash<br>Bonus Under IBP               | —                   | 873,600                             | —                                   | —                   | —   | —                     | 873,600                   |
| Long-Term Incentive:<br>Stock Options                                       | 532,600             | 532,600                             | 532,600                             | 532,600             | 532,600                                   | 532,600               | 532,600                   |
| Restricted Stock Award  | 723,000             | 723,000                             | 723,000                             | 723,000             | 723,000                                   | —                     | —                         |
| Benefits:   |                     |                                     |                                     |                     |   |                       |                           |
| 401(k) Plan   | —                   | 838                                 | —                                   | —                   | —   | —                     | —                         |
| Medical Benefits  | —                   | 15,660                              | —                                   | —                   | —   | —                     | —                         |
| Life Insurance Benefits   | —                   | 528                                 | —                                   | —                   | —   | —                     | —                         |
| Other   | —                   | —                                   | —                                   | —                   | —   | —                     | —                         |
| <b>Total</b>  | <b>\$ 1,255,600</b> | <b>\$ 3,235,226</b>                 | <b>\$ 1,255,600</b>                 | <b>\$ 1,255,600</b> | <b>\$ 1,255,600</b>                       | <b>\$ 532,600</b>     | <b>\$ 2,495,200</b>       |

## Compensation of Directors

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

The following table discloses the cash, equity awards and other compensation earned, paid or awarded, as the case may be, to each of our non-employee Directors during the fiscal years ended December 31, 2011, 2010 and 2009.

| Name                             | Year | Fees Earned Or Paid (\$) <sup>(1)</sup> | Stock Awards (\$) <sup>(2)</sup> | Option Awards (\$) <sup>(3,4)</sup> | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation (\$) | Total (\$) |
|----------------------------------|------|---|----------------------------------|-------------------------------------|---|---|-----------------------------|------------|
| (a)                              |      | (b)                                     | (c)                              | (d)                                 | (e)   | (f)   | (g)                         | (h)        |
| David L. Bradshaw                | 2011 | \$6,667                                 | \$—                              | \$—                                 | \$—   | \$—   | \$—                         | \$6,667    |
|                                  | 2010 | —                                       | —                                | —                                   | —   | —   | —                           | —          |
|                                  | 2009 | —                                       | —                                | —                                   | —   | —   | —                           | —          |
| John W. Chisholm                 | 2011 | 20,000                                  | —                                | —                                   | —   | —   | —                           | 20,000     |
|                                  | 2010 | 15,000                                  | —                                | 29,618                              | —   | —   | —                           | 44,618     |
|                                  | 2009 | 18,750                                  | —                                | 10,486                              | —   | —   | —                           | 29,236     |
| Charles G. Curtis                | 2011 | 20,000                                  | 43,525                           | —                                   | —   | —   | —                           | 63,525     |
|                                  | 2010 | 15,000                                  | —                                | 29,618                              | —   | —   | —                           | 44,618     |
|                                  | 2009 | 18,750                                  | —                                | 10,486                              | —   | —   | —                           | 29,236     |
| William F. Hughes                | 2011 | 26,667                                  | 43,525                           | —                                   | —   | —   | —                           | 70,192     |
|                                  | 2010 | 15,000                                  | —                                | 29,618                              | —   | —   | —                           | 44,618     |
|                                  | 2009 | 18,750                                  | —                                | 10,486                              | —   | —   | —                           | 29,236     |
| Kenneth V. Huseman               | 2011 | 15,000                                  | —                                | —                                   | —   | —   | —                           | 15,000     |
|                                  | 2010 | —                                       | —                                | —                                   | —   | —   | —                           | —          |
|                                  | 2009 | —                                       | —                                | —                                   | —   | —   | —                           | —          |
| Gene A. Strasheim <sup>(5)</sup> | 2011 | 13,334                                  | 43,525                           | —                                   | —   | —   | —                           | 56,859     |
|                                  | 2010 | 20,000                                  | —                                | 29,618                              | —   | —   | —                           | 49,618     |
|                                  | 2009 | 25,000                                  | —                                | 10,486                              | —   | —   | —                           | 35,486     |
| Richard L. Yadon <sup>(5)</sup>  | 2011 | 20,000                                  | 53,469                           | —                                   | —   | —   | —                           | 73,469     |
|                                  | 2010 | 15,000                                  | —                                | 29,618                              | —   | —   | —                           | 44,618     |
|                                  | 2009 | 18,750                                  | —                                | 10,486                              | —   | —   | —                           | 29,236     |

(1) Our non-employee Directors are paid a quarterly cash fee for their attendance at each meeting of our Board of Directors. The cash fee payable to our non-employee Directors is \$5,000 per quarter. Each of our non-employee Directors received a cash fee payment of \$5,000 for the four quarters in 2011, totaling \$20,000.

- (2) On April 11, 2011, each of our non-employee Directors were granted 2,500 restricted shares of common stock at an exercise price of \$17.41 per share.
- (3) On March 13, 2010, each of our non-employee Directors was granted a stock option to purchase 5,000 shares of common stock at an exercise price of \$16.74 per share, the closing price of our common stock on March 18, 2009. On March 18, 2009, each of our non-employee Directors was granted a stock option to purchase 2,500 shares of common stock at an exercise price of \$8.00 per share, the closing price of our common stock on March 18, 2009. On December 31, 2007, (for 2008) each of our non-employee Directors was granted a stock option to purchase 2,500 shares of common stock at an exercise price of \$19.61 per share, the closing price of our common stock on December 31, 2007. These stock options were granted under our 1998 Stock Option Plan. The stock options vest in quarterly increments throughout the year granted and, upon vesting, remain exercisable for ten years from the date of grant.
- (4) The amounts set forth in column (d) represent the dollar amounts we recognized for financial statement reporting purposes in accordance with FASB ASC Topic 718 with respect to the stock options granted to our non-employee Directors. The grant date fair value, as calculated in accordance with FASB ASC Topic 718, for the stock options granted to our non-employee Directors in 2009 was \$10,486 for each option grant.
- (5) Messrs. Strasheim and Yadon retired in 2011.

#### *Cash Compensation Paid to Directors*

We pay our non-employee Directors a quarterly cash fee for their attendance at each meeting of our Board of Directors. In 2010, the cash fee payable to our non-employee Directors was \$3,750 per quarter. In addition, the Chairman of the Audit Committee was entitled to an additional quarterly cash fee in the amount of \$1,250. In 2011, the quarterly cash fee for attendance at each meeting of our Board of Directors is \$5,000. In addition, the Chairman of the Audit and Compensation Committee are entitled to an additional quarterly cash fee in the amount 33% of their base cash fee.

#### *Equity Based Compensation Paid to Directors*

Prior to 2010 each non-employee Director received an annual stock option award covering 2,500 shares of our common stock for their services as a Director. In 2010, each Director received a stock option award covering 5,000 shares of common stock. The options granted to our non-employee Directors are granted under our 1998 Stock Option Plan. The options vest in 25% increments each calendar quarter in the year granted and, upon vesting, remain exercisable for a term of 10 years from the date of grant, subject to earlier termination upon the occurrence of certain events. The options issued to our non-employee Directors have an exercise price equal to the closing price of our common stock on the date of grant.

Beginning in 2011, our Board of Directors revised the equity-based component of the Board's compensation. The Board of Directors has terminated the annual stock option award and in its place, each Director will receive a grant of 2,500 shares of restricted shares of Company common stock. The restricted shares will be subject to vesting whereby no shares will vest during the first year, and then upon the first anniversary date of the award, one-fourth of the shares will vest every three months so that all restricted shares will have vested on the second anniversary date of the grant of the award.

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

#### *Other*

All Directors are reimbursed for their expenses incurred in connection with attending meetings.

We provide liability insurance for our Directors and officers. The cost of this coverage for 2011 was \$62,705.

We do not offer non-employee Directors travel accident insurance, life insurance or a pension or retirement plan.

#### **Compensation Agreements with Management**

On October 25, 2008, we entered into a new five year employment agreement with Stephen C. Taylor, our President, CEO and Chairman of the Board. We initially employed Mr. Taylor in January 2005. The 2008 employment agreement provides for, among other things:

- an annual base salary which is reviewed each year by our Compensation Committee and has been set at \$417,500 for 2012;
- an annual bonus as a percentage of Mr. Taylor's annual base salary based upon and subject to parameters established by our Board of Directors or Compensation Committee, which was set at 70% of his base salary for 2011 and 80% for 2012;
- an award to Mr. Taylor of stock options exercisable to acquire a minimum of 30,000 shares of common stock, or equivalent equity awards, each year on the anniversary of his employment; and
- participation in health and other plans generally offered to our employees.

The agreement contains provisions restricting the use of confidential information, requiring that business opportunities and intellectual property developed by Mr. Taylor become our property; and a limited two-year non-compete clause following the date he ceases to be employed by us.

The agreement is subject to termination upon (i) certain fundamental changes (such as a merger or our dissolution, sale of substantially all of our assets, certain reorganizations, or demotion without cause); (ii) the death or mental or physical incapacity of Mr. Taylor or inability of Mr. Taylor to perform the services he has been hired to provide; (iii) the voluntary resignation or retirement of Mr. Taylor; or (iv) the termination of Mr. Taylor's employment for cause within the meaning of the agreement. The employment agreement also provides that he is entitled to certain severance benefits if his employment is terminated as the result of a fundamental change or for any other reason, but excluding the following (unless otherwise authorized by our Board of Directors):

- for cause;
- the mental or physical incapacity or inability of Mr. Taylor to perform his duties for a period of 120 or more consecutive days or for multiple periods totaling 180 or more days during any twelve-month period;
- the death of Mr. Taylor; or
- the voluntary retirement or resignation of Mr. Taylor.

The severance benefits provided to Mr. Taylor upon the occurrence of a fundamental change include:

- a single lump sum cash payment equal to the amount owed through the remaining term of the employment agreement (but not less than 300% of his annual base salary in effect on the date of termination of his employment);
- immediate vesting of all unvested stock options or other equity awards;
- continued health care and insurance benefits and premium payments for a period of 36 months from the date of termination;
- the sum of (i) all bonus or incentive compensation amounts not yet paid but due and owing at the time of termination of employment, and (ii) any bonus or incentive compensation amounts which would have been payable to Mr. Taylor under the employment agreement calculated in a manner as if Mr. Taylor had remained employed by the Company during the remaining term of the agreement and earned the maximum award level possible; provided, however, that such amount due under item (ii) shall not be less than 300% of the annual bonus or incentive compensation amount that would have been due in the year of termination (once again calculated in a manner as if Mr. Taylor had remained employed by the Company for the remainder of the year and earned the maximum award level possible); and
- immediate vesting of stock options (or other equity awards) and any other compensation or incentive plans that Mr. Taylor contributed to at the date of termination, except to the extent covered by the benefits listed above.

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

#### **Limitation on Directors' and Officers' Liability**

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

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

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

We are not aware of any pending litigation or proceeding involving any of our Directors, officers, employees or agents

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

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

### **Procedures for Reviewing Certain Transactions**

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

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

### *Approval Procedures*

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

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

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

### *Ratification Procedures*

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

## PRINCIPAL SHAREHOLDERS AND SECURITY OWNERSHIP OF MANAGEMENT

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

The following table indicates the beneficial ownership of our common stock as of April 16, 2012 by: (1) each of our current directors and nominees for election; (2) our chief executive officer, principal accounting officer and our other named executive officers (as defined in Item 402(a)(3) of Regulation S-K) (together as a group, the " *Named Executive Officers* "); and (3) all of our current directors, nominees and executive officers as a group, based on our records and data supplied by each of the current directors, nominees and executive officers.

| Name of Beneficial Owner and Position  | Amount and Nature of Beneficial Ownership <sup>(1)</sup> | Percent of Class |
|--|--|------------------|
| <b>Directors &amp; Nominees Who Are Not Named Executive Officers</b>                 |  |                  |
| John W. Chisholm<br>Current Director   | 20,000 <sup>(2)</sup>                                    | *                |
| Charles G. Curtis<br>Current Director  | 83,857 <sup>(3)</sup>                                    | *                |
| William F. Hughes, Jr.<br>Current Director   | 199,500 <sup>(4)</sup>                                   | 1.60%            |
| Kenneth V. Huseman<br>Current Director   | 9,500  | *                |
| David L. Bradshaw<br>Current Director  | 2,500  | *                |
| <b>Named Executive Officers</b>  |  |                  |
| Stephen C. Taylor<br>Chief Executive Officer, Current Director<br>& Director Nominee | 283,747 <sup>(5)</sup>                                   | 2.27%            |
| James R. Hazlett<br>Vice President – Technical Services                              | 60,010 <sup>(6)</sup>                                    | *                |
| G. Larry Lawrence<br>Chief Financial Officer   | 18,333 <sup>(7)</sup>                                    | *                |
| All Directors (and nominees) and executive officers<br>as a group (8 persons)        | 677,447 <sup>(8)</sup>                                   | 5.36%            |
| * Less than one percent.   |  |                  |

(1) The number of shares listed includes all shares of common stock owned by, or which may be acquired within 60 days of April 16, 2012 upon exercise of warrants and options held by the shareholder (or group). Beneficial ownership is calculated in accordance with the rules of the Securities and Exchange Commission. Unless otherwise indicated, all shares of common stock are held directly with sole voting and investment powers. As of April 16, 2012, none of the shares of common stock owned by our officers and Directors had been pledged as collateral to secure repayment of loans.

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



- (3) Includes 25,000 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.
- (4) Includes 170,500 shares of common stock indirectly owned by Mr. Hughes through the William and Cheryl Hughes Family Trust and 22,500 shares that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan. Mr. and Mrs. Hughes are co-trustees of the William and Cheryl Hughes Family Trust and have shared voting and investment powers with respect to the shares held by the trust. Mr. and Mrs. Hughes are beneficiaries of the trust along with their two children.
- (5) Includes 198,852 shares of common stock that may be acquired upon exercise of stock options granted to Mr. Taylor as an inducement for his employment and under our 1998 Stock Option Plan.
- (6) Includes 15,000 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.
- (7) Includes 3,333 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.
- (8) Includes 279,685 shares of common stock that may be acquired upon exercise of stock options.

The following table sets forth information as of April 16, 2012 regarding the beneficial owners of more than five percent of the outstanding shares of our Common Stock. To our knowledge, there are no beneficial owners of more than five percent of the outstanding shares of our Common Stock as of April 16, 2011 other than those set forth below.

| Name and Address of Beneficial Owner   | Amount and Nature of Beneficial Ownership | Percent of Class |
|--|---|------------------|
| Blackrock, Inc.<br>40 East 52 <sup>nd</sup> Street<br>New York, New York 10022                       | 739,877 <sup>(1)</sup>                    | 6.05%            |
| Keeley Asset Management Corp.<br>401 South LaSalle Street<br>Chicago, Illinois 60605                 | 1,144,000 <sup>(2)</sup>                  | 9.40%            |
| Neuberger Berman Group LLC<br>605 Third Avenue<br>New York, New York 10158                           | 1,599,088 <sup>(3)</sup>                  | 12.99%           |
| Dimensional Fund Advisors<br>Palisades West, Building One, 6300 Bee Cave Road<br>Austin, Texas 78746 | 805,314 <sup>(4)</sup>                    | 6.50%            |

- (1) As reported in Amendment No. 2 to Schedule 13G filed with the Securities and Exchange Commission on February 13, 2012. Blackrock, Inc. has the sole voting and dispositive power over the shares reported in the table above.
- (2) As reported in Amendment No. 6 to Schedule 13G filed with the Securities and Exchange Commission on February 7, 2012, Keeley Asset Management Corp., an investment adviser, and Keeley Small Cap Value Fund, Inc., an investment company, beneficially own the shares, while Keeley Asset Management Corp. holds sole voting and dispositive power over the shares reported in the table above.
- (3) As reported in Amendment No. 3 to Schedule 13G filed with the Securities and Exchange Commission on February 14, 2012. According to the filing, Neuberger Berman Group LLC and Neuberger Berman LLC beneficially own the shares.

- (4) As reported in Amendment No. 1 to Schedule 13G filed with the Securities and Exchange Commission on February 14, 2012. According to the filing, Dimensional Fund Advisors LP may beneficially own the shares.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors and officers to file periodic reports of beneficial ownership with the Securities and Exchange Commission. These reports show the Directors' and officers' ownership and the changes in ownership of our common stock and other equity securities.

Based on a review of Section 16(a) filings, all transactions in our equity securities required to be reported by Section 16(a) of the Securities Exchange Act of 1934, as amended, were reported on a timely basis.

### **REPORT OF THE AUDIT COMMITTEE**

Our Audit Committee is responsible for overseeing the integrity of our financial statements; financial reporting processes; compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; and the performance of our internal accounting functions and independent auditors.

Our independent registered public accounting firm is responsible for performing an independent audit of our financial statements in accordance with the Standards of the Public Company Accounting Oversight Board (United States) and to issue a report thereon. The Audit Committee reviews with management our financial statements and management's assessment of internal controls over financial reporting; reviews with the independent registered accounting firm their independent report on the condition of the company's financial statements; and reviews the activities of the independent registered public accounting firm. The Audit Committee selects our independent registered public accounting firm each year. The Audit Committee also considers the adequacy of our internal controls and accounting policies. The chairman and members of the Audit Committee are all independent Directors of our Board of Directors within the meaning of Section 303A of the New York Stock Exchange Listed Company Manual.

The Audit Committee has reviewed and discussed our audited financial statements with our management. The Audit Committee has discussed with our independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees), as amended. In addition, the Audit Committee has received the written disclosures and the letter from our independent registered public accounting firm required by the Public Company Accounting Oversight Board Rule 3526, and has discussed with the independent registered public accounting firm matters pertaining to their independence. Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for 2011 for filing with the Securities and Exchange Commission. See "*Proposal 2 – Ratification of Appointment of Independent Registered Accounting Firm*" on the following page for further information.

Respectfully submitted by the Audit Committee,

David L. Bradshaw, Chairman

Charles G. Curtis

William F. Hughes, Jr.

Kenneth V. Huseman

## PROPOSAL 2 – RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We are asking the stockholders to ratify the Audit Committee’s appointment of BDO USA, LLP as our independent auditors for the fiscal year ending December 31, 2012. BDO USA, LLP is a registered public accounting firm with the Public Company Accounting Oversight Board (“PCAOB”), as required by the Sarbanes-Oxley Act of 2002 and the rules of the PCAOB. Shareholder ratification of the appointment is not required under the laws of the State of Colorado, but the Board believes it is important to allow the shareholder to vote on the proposal. In the event the shareholders fail to ratify the appointment, the Audit Committee will reconsider this appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of different independent auditors at any time during the year if the Audit Committee determines that such a change would be in our best interests and that of our shareholders.

BDO USA, LLP representatives are expected to attend the 2012 Annual Meeting in person. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

On April 13, 2010, the Audit Committee approved the engagement of BDO USA, LLP as our independent registered public accounting firm. Accordingly, we dismissed Hein & Associates LLP as our independent registered public accounting firm effective as of the same date. There were no disagreements or conflicts between Hein & Associates LLP and us. Rather, we decided to engage BDO USA, LLP because of the firm’s national energy industry experience.

**The Board of Directors recommends that the shareholders vote “FOR” the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.**

### Principal Accountant Fees

Our principal accountant for the fiscal years ended December 31, 2009 was Hein & Associates LLP. Our principal accountant for the fiscal years ended December 31, 2010 and 2011 was BDO USA, LLP.

#### *Audit Fees*

The aggregate fees billed for professional services rendered by Hein & Associates LLP for the audit of our financial statements for our fiscal year ending December 31, 2009 and the review of the financial statements on Forms 10-Q for the fiscal quarters in such fiscal year were approximately \$278,000. This fee also included update audit procedures performed by Hein & Associates LLP for the issuance of consents for the inclusion of audit opinions in various registration statements we filed with the Securities and Exchange Commission during that year.

The aggregate fees billed for professional services rendered by BDO USA, LLP for the audit of our financial statements for our fiscal years ended December 31, 2010 and 2011 and the review of the financial statements on Forms 10-Q for the fiscal quarters in such fiscal years were approximately \$250,000 and \$220,000.

#### *Audit Related Fees*

During the years ended December 31, 2011, 2010 and 2009, there were no audit related fees.

#### *Tax Fees*

We were not billed by BDO USA, LLP or Hein & Associates LLP for any tax services during the years ended December 31, 2011, 2010 or 2009.

### *All Other Fees*

No other fees were billed by BDO USA, LLP or Hein & Associates LLP, during our fiscal years ended December 31, 2011, 2010 and 2009, other than as described above.

### **Audit Committee Pre-Approval Policies and Procedures**

As of the date of this proxy statement, our Audit Committee has not established general pre-approval policies and as of December 31, 2011, our Audit Committee had not established pre-approval policies and procedures for the engagement of our principal accountant to render audit or non-audit services. However, in accordance with Section 10A(i) of the Exchange Act, our Audit Committee, as a whole, approves the engagement of our principal accountant prior to the accountant rendering audit or non-audit services.

Certain rules of the Securities and Exchange Commission provide that an auditor is not independent of an audit client if the services it provides to the client are not appropriately approved, subject, however, to a *de minimus* exception contained in the rules. The Audit Committee pre-approved all services provided by BDO USA, LLP in 2011 and the *de minimus* exception was not used.

### **PROPOSAL 3 – CONSIDERATION OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

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

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

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

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

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

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

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

## SHAREHOLDER PROPOSALS

Under SEC Rule 14a-8, if a shareholder wants us to include a proposal in our proxy statement and form of proxy for presentation at our 2013 Annual Meeting of Shareholders, the proposal must be received by us at our principal executive offices at 508 West Wall Street, Suite 550, Midland, Texas 79701 by January 3, 2013, unless the date of our 2013 Annual Meeting of Shareholders is more than 30 days from the anniversary date of our 2012 Annual Meeting of Shareholders, in which case the deadline is a reasonable time before we print and mail our proxy materials for the 2013 Annual Meeting of Shareholders. The proposal should be sent to the attention of the Secretary of Natural Gas Services Group.

The SEC also sets forth procedures under which shareholders may make proposals outside of the process described above in order for a shareholder to introduce an item of business at an Annual Meeting of Shareholders. A proposal may not be presented at the 2013 Annual Meeting and no persons may be nominated for election to the Board at that meeting unless we received notice of the proposal or nomination no later than March 19, 2013. Your notice should be addressed to President, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. Your notice must comply with the requirements set forth in our bylaws, a copy of which may be obtained from the Secretary of Natural Gas Services Group.

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

## COMMUNICATIONS WITH THE BOARD OF DIRECTORS

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

## OTHER MATTERS

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

**New York Stock Exchange Certification.** We listed our common stock on the New York Stock Exchange in October 2008. The certification of our Chief Executive Officer required by the NYSE Listing Standards, Section 303A.12(a), relating to our compliance with the NYSE Corporate Governance Listing Standards, was submitted to the NYSE on June 23, 2011, in connection with our listing on the exchange. The certifications of our Chief Executive Officer and Principal Accounting Officer required by the SEC in connection with our Annual Report on Form 10-K for the year ended December 31, 2011 were submitted to the SEC on March 14, 2012 with our Annual Report on Form 10-K.

You may obtain our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 without charge upon written request to Stephen C. Taylor, President, at Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. In addition, the exhibits to the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 may be obtained by any shareholder upon written request to Mr. Taylor.

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

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Stephen C. Taylor

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

Midland, Texas  
April 27, 2012

FORM OF PROXY CARD  
FORM OF PROXY CARD

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Notice and Proxy Statement, Form 10-K and Annual Report is/are available at [www.proxyvote.com](http://www.proxyvote.com).

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**NATURAL GAS SERVICES GROUP, INC.  
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD  
OF DIRECTORS  
ANNUAL MEETING OF SHAREHOLDERS JUNE 13, 2012**

The shareholder(s) hereby appoint(s) Stephen C. Taylor and G. Larry Lawrence, or either of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of NATURAL GAS SERVICES GROUP, INC. that the shareholder(s) is/are entitled to vote at the Annual Meeting of Shareholder(s) to be held at 8:30 AM, CDT on June 13, 2012, at the DoubleTree Hotel at 117 West Wall Street, Midland, TX 79701, and any adjournment or postponement thereof.

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

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

**CONTINUED AND TO BE SIGNED ON REVERSE SIDE**

**NGSG**

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

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

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

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

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

|   |  |  |   |  |  |  |
|---|--|--|---|--|--|--|
| <p style="text-align: center;"><input type="radio"/> For All <input type="radio"/> Withhold All <input type="radio"/> For All Except</p> <p><b>The Board of Directors recommends that you vote FOR the following:</b></p> <p>1. Election of Directors</p> <p><b>Nominees</b></p> <p>01 David L. Bradshaw (for a term expiring in 2015)<br/>                 02 William F. Hughes (for a term expiring 2015)</p> <p><b>The Board of Directors recommends you vote FOR the following proposal(s):</b></p> <p>2. Ratification of the appointment of BDO USA, LLP as the Company's Independent Registered Public Accounting Firm for 2012.</p> <p>3. To consider an advisory vote on compensation of our named executive officers.</p> <p>Please indicate if you plan to attend this meeting <input type="radio"/> Yes <input type="radio"/> No</p> <p>Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.</p> | <p>To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.</p> <hr style="border: 1px solid black;"/> <p style="text-align: right;"><input type="radio"/> For <input type="radio"/> Against <input type="radio"/> Abstain      <input type="radio"/> For <input type="radio"/> Against <input type="radio"/> Abstain</p> |  |   |  |  |  |
| <table border="1" style="width: 100%; height: 40px; border-collapse: collapse;"> <tr> <td style="width: 70%;"></td> <td style="width: 30%;"></td> </tr> </table> <p>Signature [PLEASE SIGN WITHIN BOX] Date</p>   |  |  | <table border="1" style="width: 100%; height: 40px; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="width: 20%;"></td> <td style="width: 20%;"></td> </tr> </table> <p>Signature (Joint Owners) Date</p> |  |  |  |
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