As filed with the Securities and Exchange Commission on May 15, 2002

Registration No. 333-________

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NATURAL GAS SERVICES GROUP, INC.
(Name of small business issuer in its charter)

Colorado	3533	75-2811855
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

2911 SOUTH COUNTY ROAD 1260
MIDLAND, TEXAS 79706
(915) 563-3974
(Address and telephone number of principal executive offices and address of principal place of business)

WAYNE L. VINSON
2911 SOUTH COUNTY ROAD 1260
MIDLAND, TEXAS 79706
(915) 563-3974
(Name, address and telephone number of agent for service)

WITH COPIES TO:

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DENVER, COLORADO 80202
(303) 573-1600

Approximate date of proposed sale to the public: As soon as practicable following the date on which this Registration Statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock(2)	$ 10,910,625	$ 1,004
Warrants to purchase common stock(2)	$ 474,375	$ 44
Common stock underlying warrants	$ 13,092,750	$ 1,205
Representative's options	$ 50	$ 1
Common stock(3)	$ 1,138,500	$ 105
Warrants to purchase common stock(3)	$ 49,500	$ 5
Common stock underlying warrants	$ 1,138,500	$ 105
Total(4)....................................	$ 26,804,300	$ 2,469

(1) Estimated pursuant to Rule 457(o) under the Securities Act of 1933 solely for the purpose of calculating the registration fee.

(2) Includes shares of common stock and warrants the underwriters have the option to purchase from us to cover overallotments, if any.

(3) Issuable upon exercise of the representative's options to purchase common stock and warrants.

(4) In accordance with Rule 416 under the Securities Act of 1933, a presently indeterminable number of shares of common stock are registered hereunder which may be issued in the event provisions preventing dilution become operative, as provided in the representative's warrant for the purchase of common stock. No additional registration fee has been paid for these shares of common stock.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information in this preliminary prospectus is not complete and may be changed. We may not sell the securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell the securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 15, 2002

1,650,000 SHARES OF COMMON STOCK

AND

1,650,000 WARRANTS

NATURAL GAS SERVICES GROUP, INC.

[LOGO]

This is an initial public offering of our common stock and warrants. We expect that the public offering price of the common stock will be between $5.00 and $5.75 per share and that the public offering price of the warrants will be $0.25 per warrant. Each person who purchases securities in this offering must purchase the same number of shares of common stock and warrants.

We are applying to have our common stock and warrants included for quotation on the American Stock Exchange under the symbols "NGS" and "NGS.W." The common stock and warrants will trade separately in any market that might develop.

INVESTING IN THE COMMON STOCK AND WARRANTS INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

	PER SHARE	PER WARRANT	TOTAL
Public offering prices	$	0.25	$
Underwriting discounts	$	0.25	$
Proceeds to us, before expenses	$	0.25	$

The underwriters have options, for 60 days from the date of this prospectus, to purchase up to an additional 247,500 shares of common stock, to purchase up to an additional 247,500 warrants, or to purchase both from us, to cover over-allotments, if any.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The underwriters expect to deliver the shares of common stock and warrants to purchasers on ________________, 2002.

NEIDIGER, TUCKER, BRUNER, INC.

THE DATE OF THIS PROSPECTUS IS ___________, 2002.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in the common stock and warrants.

NATURAL GAS SERVICES GROUP, INC.

We provide equipment and services to the natural gas and oil industry. We manufacture, fabricate, sell and lease natural gas compressors that enhance the production of oil and gas wells and we provide maintenance services for those compressors. We also manufacture and sell flare tips and ignition systems for oil and gas plant and production facilities.

We primarily lease natural gas compressors. As of March 31, 2002, we had 220 natural gas compressors under lease to third parties.

We also fabricate natural gas compressors for our customers, designing compressors to meet unique specifications dictated by well pressures, production characteristics and particular applications for which compression is sought.

Although natural gas compressors generally do not suffer significant technological obsolescence, they do require routine maintenance and periodic refurbishing to prolong their useful life. As of March 31, 2002, we had written maintenance agreements with third parties relating to 81 compressors. The written maintenance agreements have terms that expire at December 31, 2005. During the year ended December 31, 2001, and during the three months ended March 31, 2002, we received revenue of approximately $704,000 and $265,000, respectively, from maintenance agreements. In addition to the written maintenance agreements, we provide maintenance as a part of the rental of our compressor leases.

We have established an exchange and rebuild program to attempt to help minimize costs and maximize revenue for our customers. Under the program, we work with maintenance and operating personnel of a customer to identify equipment for exchange. When we receive a compressor for exchange because of a maintenance problem, we deliver to our customer a replacement compressor at full price. We then rebuild the exchange compressor and credit our customer an amount based on the value of the rebuilt compressor. During the year ended December 31, 2001, and during the three months ended March 31, 2002, we received revenue of approximately $402,000 and $67,000, respectively, which represents the difference between the full price of the replacement compressors and the values of the rebuilt compressors credited to our customers.

We also offer a retrofitting service by repackaging a customer's compressor with a compressor that meets our customer's changed conditions.

We design, manufacture, install and service flare stacks and related ignition and control devices for onshore and offshore burning of gas compounds such as hydrogen sulfide, carbon dioxide, natural gas and liquefied petroleum gases. We produce two ignition systems for varied applications: (a) a standing jet-like pipe for minimal fuel consumption, with a patented electronic igniter; and (b) an electronic sparked ignition system. During the year ended December 31, 2001, and during the three months ended March 31, 2002, we sold 54 and 10, respectively, flare systems to our customers generating approximately $703,000 and $275,000 in revenue, respectively.

We were incorporated on December 17, 1998 and initially operated as a holding company of Flare King, Inc., Hi-Tech Compressor Company, L.C., NGE Leasing, Inc. and CNG Engines Company.

In July 2000, Flare King and Hi-Tech merged and now operate as Rotary Gas Systems, Inc. Effective March 31, 2000, we sold CNG.

On March 29, 2001, we acquired, through our subsidiary, Great Lakes Compression, Inc., all of the compression related assets of Dominion Michigan Petroleum Services, Inc., an unaffiliated company that is a subsidiary of Dominion Resources, Inc. and which was in the business of manufacturing, fabricating, selling, leasing and maintaining natural gas compressors. The total purchase price was $8,000,000. We paid Dominion Michigan $1,000,000 cash and are obligated to pay Dominion Michigan an additional approximately $7,000,000 in March, 2003. The deferred purchase price bears interest at a rate of nine percent per annum, which is payable on the first business day of each month. The deferred purchase price is secured by all of the assets we acquired and the pledge of all of our stock ownership in Great Lakes Compression.

As a part of the transaction an affiliate of Dominion Michigan committed to purchase or to enter into five year leases for compressors totaling five thousand horsepower. The purchases or leases are to be made by December 31, 2005.

We maintain our principal office at 2911 South County Road 1260, Midland, Texas 79706 and our telephone number is (915) 563-3974.

OUR OPPORTUNITY

The current market for gas compressors indicates that we can grow our fleet at approximately 10 gas compressors per month for the foreseeable future. This estimate is based solely on demand by our current customers in the geographic areas where we currently operate. There are over 165,000 producing gas and gas condensate wells in these geographic areas, which indicates that we can acquire more customers in our current geographic area. There are also many other geographic areas that could be added to increase our marketing area. We believe that our reputation for quality service and equipment will be instrumental in enabling us to obtain these additional customers.

OPERATING PHILOSOPHY AND GROWTH STRATEGY

Our operating philosophy is to increase shareholders' equity through profitable growth, primarily through internal growth of our ongoing operations. Our management believes that, with the proceeds from this offering, we can continue to accelerate internal growth by more actively pursuing leasing programs for compressors. When opportunities present themselves, we also may grow through acquisitions. However, our growth through operations and acquisitions will be limited unless we are able to obtain capital in addition to proceeds from this offering.

THE OFFERING

Securities offered....................................	1,650,000 shares of our common stock and 1,650,000 warrants to purchase 1,650,000 shares of our common stock. In this offering, an equal number of shares and warrants must be purchased.

Warrant attributes.....................................	Each warrant is exercisable to purchase one share of our common stock at an exercise price of $________ per share (125% of the public offering price of the common stock) during the four years ending _______, 2006, subject to our redemption rights.
Shares of common stock to be outstanding after the offering................	5,007,632 shares.
Use of Proceeds..	We plan to use the net proceeds to reduce indebtedness, to pay for the manufacture and fabrication of gas compressors and for working capital.
Proposed American Stock Exchange Symbols...............	NGS and NGS.W

Unless the context otherwise requires, use of the terms "us," "we," "our," and similar possessive terms in this prospectus include our wholly owned subsidiaries.

Unless otherwise stated, all information in this prospectus assumes no exercise of the over-allotment options by the underwriters to purchase up to an additional 247,500 shares of common stock, purchase up to an additional 247,500 warrants, or to purchase both from us.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table summarizes our financial data. The consolidated balance sheet data includes a column entitled "As Adjusted" that reflects the sale of 1,650,000 shares of common stock and warrants at an assumed combined offering price of $6.00, net of a combined underwriting discount of $.60 and estimated total offering expenses of $600,000. You should refer to the consolidated financial statements included elsewhere in this prospectus for a more complete description of our financial condition and results of operations.

CONSOLIDATED STATEMENT OF INCOME AND OTHER DATA(1):

	FOR THE YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1999	2000	2001	2001	2002
	(in thousands except per share data)				
Revenue	$ 2,629	$ 3,652	$ 8,762	$ 1,410	$ 2,690
Total costs of revenue	1,194	1,535	4,942	830	1,680
Gross profit	1,435	2,117	3,820	580	1,010
Total operating expenses	1,070	1,594	2,621	472	653
Income from operations	365	523	1,199	108	357
Total other income (expense)	(26)	(159)	(503)	(31)	(172)
Income from continuing operations before income taxes	339	364	696	77	185
Total income tax expense	98	147	314	27	89
Income before discontinued operations	241	217	382	50	96
Discontinued operations (2)	(212)	692	--	--	--
Net income	29	909	382	50	96
Preferred dividends	--	--	11	--	44
Net income available to common shareholders	$ 29	$ 909	$ 371	$ 50	$ 52
PER COMMON SHARE DATA:					
Basic	$ .01	$ .27	$ .11	$ .02	$ .02
Diluted	$ .01	$ .27	$ .11	$ .02	$ .01
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING					
Basic	3,357,632	3,357,632	3,357,632	3,357,632	3,357,632
Diluted	3,357,632	3,357,632	3,483,987	3,357,632	3,798,176
EBITDA(3)	$ 507	$ 1,619	$ 2,523	$ 280	$ 697

CONSOLIDATED BALANCE SHEET DATA(1):

	DECEMBER 31, 2001	MARCH 31, 2002	
	ACTUAL	ACTUAL	AS ADJUSTED
	(in thousands)		
Current assets	$ 3,248	$ 3,490	$ 8,300

Total assets
....
18,810 19,568 24,378
Current liabilities
.... 2,049
9,761 6,261 Shareholders'
equity ....
5,781 5,845 14,155

CONSOLIDATED STATEMENT OF CASH FLOWS:

	FOR THE YEAR ENDED DECEMBER 31,			FOR THE THREE MONTHS ENDED MARCH 31,	
	1999	2000	2001	2001	2002
	(in thousands)				
Cash flows provided by (used in) operating activities	$ 307	$ (253)	$ 840	$ (89)	$ (77)
Cash flow used in investment activities	(1,116)	(1,836)	(3,087)	(1,388)	(705)
Cash flow provided by financing activities	2,248	698	2,611	1,357	412

INFORMATION PERTAINING TO COMPRESSORS LEASED

	COMPRESSORS LEASED		
	1999	2000	2001
Leased at beginning of year	14	41	75
Leased during year	27	34	152
Returned during year	0	0	20
Leased at year end	41	75	207

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(1) The financial information reflects the acquisition by us of the compression related assets of Dominion Michigan on March 29, 2001. The purchase price was $8,000,000 of which $1,000,000 was paid at closing and the net balance was financed by Dominion Michigan. The operations and assets of Dominion Michigan are included in our consolidated financial statements commencing on April 1, 2001.

(2) On March 31, 2000, we disposed of CNG, a former subsidiary, in a transaction whereby we transferred all of the common stock of CNG to the former owner in exchange for all of the former owner's shares of our outstanding common stock (692,368 shares) and a note receivable for $350,000. During the year ended December 31, 2000, the former owner defaulted on all payments due under the note receivable, and the entire amount has been reserved and reflected as a reduction in the gain from discontinued operations. The sale resulted in a non-taxable gain from discontinued operations of approximately $944,000. Pre-tax loss from discontinued operations of approximately $232,000 in the summary consolidated statement of income data reflects the net loss from operations of CNG from January 1, 2000 through the date of disposal. Total revenue of CNG was approximately $3,915,000 in 1999 and approximately $828,000 from January 1, 2000 through the date of disposal.

(3) The row entitled "EBITDA" reflects net income or loss plus depreciation, amortization, interest expense, income taxes and other non-cash charges. EBITDA is a measure used by analysts and investors as an indicator of operating cash flow since it excludes the impact of movements in working capital items, non-cash charges and financing costs. However, EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered a substitute for other financial measures of performance. EBITDA as calculated by us may not be comparable to EBITDA as calculated and reported by other companies.

RISK FACTORS

You should carefully consider the following risks before you decide to buy the common stock and warrants. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial may also impair our business.

If any of the events described in the following risks actually occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading prices of our common stock or warrants could decline and you could lose all or part of your investment.

OUR CURRENT DEBT IS LARGE AND MAY NEGATIVELY IMPACT OUR CURRENT AND FUTURE FINANCIAL STABILITY.

We have significant indebtedness and might not have the ability to incur any substantial additional indebtedness. The level of our indebtedness could have several important effects on our future operations, including:

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

IF WE ARE UNABLE TO SERVICE OUR DEBT, WE WILL LIKELY BE FORCED TO TAKE REMEDIAL STEPS THAT ARE CONTRARY TO OUR BUSINESS PLAN.

As of March 31, 2002, we had an aggregate of approximately $11,700,000 of outstanding indebtedness not including accounts payable and accrued expenses of approximately $1,100,000. It is possible that our business will not generate sufficient cash flow from operations to meet our debt service requirements and the payment of principal when due. If this were to occur, we may be forced to:

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

IF WE ARE UNABLE TO OBTAIN FINANCING TO RETIRE THE REMAINING DEBT WHICH WE INCURRED IN CONNECTION WITH OUR ACQUISITION OF THE ASSETS OF DOMINION MICHIGAN, WE WILL HAVE TO PAY THE DEBT WHICH COULD CAUSE US TO CURTAIL OUR OPERATIONS UNLESS WE ARE ABLE TO EXTEND THE DUE DATE OF OR REFINANCE THE DEBT.

We have received a letter from a bank indicating that upon the completion of this offering, the bank plans to loan us a sufficient amount to pay approximately $3,450,000 we will still owe to Dominion Michigan. The letter is not a commitment and, among other conditions, is subject to the satisfaction of the bank as to our financial condition and the execution by us of loan documents acceptable to the bank. If, for any reason, the bank does not make the loan, we are obligated to pay Dominion Michigan approximately $3,450,000 in March of 2003. In order to pay such amount to Dominion Michigan, absent the bank loan, we may be forced to:

- sell assets at disadvantageous prices, which could cause us to have to curtail our operations;
- obtain additional financing; or
- refinance all or a portion of our indebtedness on terms that may be very unfavorable to us.

OUR CREDIT FACILITY CONTAINS COVENANTS THAT LIMIT OUR OPERATING AND FINANCIAL FLEXIBILITY AND, IF BREACHED, EXPOSE US TO SEVERE REMEDIAL PROVISIONS.

Under the terms of our credit facility, we must:

- comply with a debt to asset ratio;
- maintain minimum levels of tangible net worth;
- not exceed levels of debt specified in the agreement;
- comply with a cash flow to fixed charges ratio;
- comply with a debt to net worth ratio; and
- not incur additional debt over a specified amount.

Our ability to meet the financial ratios and tests under our credit facility can be affected by events beyond our control, and we may not be able to satisfy those ratios and tests. A breach under the credit facility could permit the lender to accelerate the debt so that it is immediately due and payable. No further borrowings would be available under the credit facility. If we were unable to repay the debt, the lender under the credit facility could proceed against our assets.

APPROXIMATELY 78% OF OUR COMPRESSOR LEASES ARE LEASED FOR TERMS OF SIX MONTHS OR LESS THAT, IF TERMINATED, WOULD ADVERSELY IMPACT OUR REVENUE AND OUR ABILITY TO RECOVER OUR INITIAL EQUIPMENT COSTS.

Approximately 78% of our compressor leases are for terms of up to six months. There is a possibility that these leases could be terminated by lessees within short periods of time and that we may not be able to recover the cost of the compressor for which a lease is terminated.

THE ANTICIPATED REVENUE FROM THE AFFILIATE OF DOMINION MICHIGAN CANNOT BE GUARANTEED.

In connection with our acquisition of the compression related assets of Dominion Michigan, an affiliate of Dominion Michigan committed to purchase compressors from us or enter into five year leases of compressors with us totaling five-thousand horsepower. If, for any reason, the affiliate does not fulfill this obligation to any material extent, our cash flow will be significantly reduced and we may not be able to pay the principal or interest on our debt as it becomes due.

WE ARE DEPENDENT ON A FEW SUPPLIERS FOR SOME OF OUR COMPRESSOR COMPONENTS AND THE LOSS OF ONE OF THESE SUPPLIERS COULD CAUSE A DELAY IN THE MANUFACTURING OF OUR COMPRESSORS AND REDUCE OUR REVENUE.

We currently obtain approximately 35% of our compressor components from two suppliers. If either of these suppliers should curtail its operations or be unable to meet our needs, we would encounter delays in supplying our customers with compressors until an alternative supplier, if any, could be found. Such delays in our manufacturing process could reduce our revenue and negatively impact our relationships with customers.

DECREASED OIL AND GAS INDUSTRY EXPENDITURE LEVELS WOULD ADVERSELY AFFECT OUR REVENUE.

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

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

If the demand for oil and gas decreases, then demand for our compressors likely will decrease.

THE INTENSE COMPETITION IN OUR INDUSTRY COULD RESULT IN REDUCED PROFITABILITY AND LOSS OF MARKET SHARE FOR US.

We sell or lease our products and sell our services in competitive markets. In most of our business segments, we compete with the oil and gas industry's largest equipment and service providers who have greater name recognition than we do. These companies also have substantially greater financial resources, larger operations and greater budgets for marketing, research and development than we do. They may be better able to compete in making equipment available quickly and more efficiently, meeting delivery schedules or reducing prices. As a result, we could lose customers and market share to those competitors. These companies may also be better positioned than us to successfully endure down turns in the oil and gas industry.

Our operations may be adversely affected if our current competitors or new market entrants introduce new products or services with better prices, features, performance or other competitive characteristics than

our products and services. Competitive pressures or other factors also may result in significant price competition that could harm our revenue and our business.

WE MIGHT BE UNABLE TO EMPLOY ADEQUATE TECHNICAL PERSONNEL.

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

IF WE DO NOT DEVELOP, PRODUCE AND COMMERCIALIZE NEW COMPETITIVE TECHNOLOGIES AND PRODUCTS, OUR REVENUE MAY DECLINE.

The markets for natural gas compressor products and services and for flare systems, ignition systems and components for plant and production facilities are characterized by continual technological developments. As a result, substantial improvements in the scope and quality of product function and performance can occur over a short period of time. If we are not able to develop commercially competitive products in a timely manner in response to changes in technology, our business and revenue may be adversely affected.

We may encounter financial constraints or technical or other difficulties that could delay introduction of new products and services in the future. Our competitors may introduce new products before we do and achieve a competitive advantage.

Additionally, the time and expense invested in product development may not result in commercial applications that provide revenue. We could be required to write off our entire investment in a new product that does not reach commercial viability. Moreover, we may experience operating losses after new products are introduced and commercialized because of high start-up costs, unexpected manufacturing costs or problems, or lack of demand.

WE ARE SUBJECT TO EXTENSIVE ENVIRONMENTAL LAWS AND REGULATIONS THAT COULD REQUIRE US TO TAKE COSTLY COMPLIANCE ACTIONS THAT COULD HARM OUR FINANCIAL CONDITION.

Our manufacturing and maintenance operations are significantly affected by stringent and complex federal, state and local laws and regulations governing the discharge of substances into the environment or otherwise relating to environmental protection. In these operations, we generate and manage hazardous wastes such as solvents, thinner, waste paint, waste oil, washdown wastes, and sandblast material. We attempt to use generally accepted operating and disposal practices and, with respect to acquisitions, will attempt to identify and assess whether there is any environmental risk before completing an acquisition. Based on the nature of the industry, however, hydrocarbons or other wastes may have been disposed of or released on or under properties owned, leased, or operated by us or on or under other locations where such wastes have been taken for disposal. The waste on these properties may be subject to federal or state environmental laws that could require us to remove the wastes or remediate sites where they have been released. We could be exposed to liability for cleanup costs, natural resource and other damages as a result of our conduct or the conduct of, or conditions caused by, prior operators or other third parties. Environmental laws and regulations have changed in the past, and they are likely to change in the future. If existing regulatory requirements or enforcement policies change, we may be required to make significant unanticipated capital and operating expenditures.

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

- issuance of administrative, civil and criminal penalties;

- denial or revocation of permits or other authorizations;

- reduction or cessation in operations; and

- performance of site investigatory, remedial or other corrective actions.

WE COULD BE SUBJECT TO SUBSTANTIAL LIABILITY CLAIMS THAT COULD HARM OUR FINANCIAL CONDITION.

Our products are used in hazardous drilling and production applications where an accident or a failure of a product can cause personal injury, loss of life, damage to property, equipment or the environment, or suspension of operations.

While we maintain insurance coverage, we face the following risks under our insurance coverage:

- we may not be able to continue to obtain insurance on commercially reasonable terms;

- we may be faced with types of liabilities that will not be covered by our insurance, such as damages from significant product liabilities and from environmental contamination;

- the dollar amount of any liabilities may exceed our policy limits; and

- we do not maintain coverage against the risk of interruption of our business.

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

LIABILITY TO CUSTOMERS UNDER WARRANTIES MAY MATERIALLY AND ADVERSELY AFFECT OUR EARNINGS.

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

LOSS OF KEY MEMBERS OF OUR MANAGEMENT COULD ADVERSELY AFFECT OUR BUSINESS.

We depend on the continued employment and performance of Wayne L. Vinson, our President and the President of Rotary Gas Systems, Scott W. Sparkman, our Secretary and the Executive Vice President of NGE Leasing, Alan P. Kurus, our Vice President-Sales and Marketing, Earl R. Wait, our Treasurer and Chief Financial Officer, and other key members of our management. We currently have employment agreements only with Wayne L. Vinson and Earl R. Wait. If any of our key managers resigns or becomes unable to

continue in his present role and is not adequately replaced, our business operations could be materially adversely affected. We do not maintain any "key man" life insurance for any of our officers, except for policies totaling $1,500,000 on the life of Wayne L. Vinson. We are the beneficiary of this policy.

WE ARE RELIANT ON OUR CURRENT CUSTOMERS FOR FUTURE CASH FLOWS.

Our business is dependent not only on securing new customers but also on maintaining current customers. One customer accounted for 34% and 26% of our consolidated revenue during the three months ended March 31, 2002, and the year ended December 31, 2001, respectively. The loss of one or more of our significant customers would have an adverse effect on our revenue and results of operations.

PROVISIONS CONTAINED IN OUR GOVERNING DOCUMENTS COULD HINDER A CHANGE IN OUR CONTROL.

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

- directors will be elected for three-year terms, with approximately one-third of the board of directors standing for election each year;

- cumulative voting is not allowed which limits the ability of minority shareholders to elect any directors;

- the unanimous vote of the board of directors or the affirmative vote of the holders of not less than 80% of the votes entitled to be cast by the holders of all shares entitled to vote in the election of directors is required to change the size of the board of directors; and

- directors may only be removed for cause by holders of not less than 80% of the votes entitled to be cast on the matter.

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

YOU MAY BE UNABLE TO EXERCISE THE WARRANTS IF WE ARE UNABLE TO QUALIFY OUR SECURITIES UNDER APPLICABLE SECURITIES LAWS OR IF WE REDEEM YOUR WARRANTS.

You will initially own one warrant for each share of common stock purchased in this offering. You may purchase one share of common stock through the exercise of one warrant on payment of the $___ exercise price. You may only exercise your warrants if a registration statement relating to the common stock underlying the warrants is then in effect and we have complied with applicable state securities laws. There is a risk that we may be unsuccessful in maintaining a current registration statement covering the common stock underlying the warrants. We may not have sufficient funds or may not be able to obtain the financial statements necessary to maintain a current registration statement covering the common stock underlying the warrants. As a result, you may be unable to exercise the warrants for this or other reasons. We may also redeem your warrants under certain circumstances. Your warrants may be exercised during the notice period

prior to the date of redemption. If you do not exercise your warrants prior to the redemption date, you will only be entitled to receive the redemption price of $0.25 per warrant.

IF OUR COMMON STOCK DOES NOT TRADE FOR A CERTAIN PRICE PER SHARE AFTER SIX MONTHS FROM THE CLOSING OF THIS OFFERING, OUR PREFERRED STOCK WILL NOT AUTOMATICALLY CONVERT INTO OUR COMMON STOCK.

Our currently outstanding 381,654 shares of 10% Convertible Series A Preferred Stock will automatically convert into shares of our common stock if, after six months from the closing of this offering, our common stock trades at or above $6.50 per share for 20 consecutive trading days. Until such event occurs, we will be required to:

- continue to pay the preferred stock dividend;
- permit the preferred stock holders to vote as a separate class where required by Colorado law; and
- pay the holders of preferred stock a preference upon our liquidation.

The same consequences would likely result from any additional preferred stock that our board of directors may authorize for issuance in the future, as well as additional rights and preferences that could be included in the terms of the preferred stock.

SALES OF LARGE NUMBER OF SHARES COULD ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

Substantial sales of our common stock, including shares issued upon the exercise of outstanding options and warrants, in the public market following this offering, or the perception that these sales could occur, may have a depressive effect on the market price of our common stock and could impair our ability to raise capital or make acquisitions through the issuance of equity securities. As of March 31, 2002, there were 3,357,632 shares of our common stock outstanding.

Of these shares, 1,989,941 are freely tradable without restriction or further registration under the securities laws and 1,367,391 shares are held by directors, officers, and other of our affiliates. The shares held by our directors, officers and other affiliates are subject to the resale limitations of Rule 144 described below. Further, our officers, directors and beneficial holders of 5% or more of our outstanding shares of common stock have agreed, pursuant to lock-up agreements relating to the transfer of shares of our common stock, that they will not sell, transfer, hypothecate or convey any of our shares of common stock by registration or otherwise for a period of twelve months from the date of this prospectus without the prior written consent of the representative of the underwriters. However, after the lock-up expires, our officers, directors and holders of 5% or more of our shares will be able to sell their shares as the securities laws and market conditions permit. All shares of common stock sold in this offering will be freely tradable, unless purchased by our affiliates.

In general, under Rule 144 adopted under the Securities Act, any person that beneficially owns restricted securities for one year and any person deemed to be an affiliate of our company is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of (1) 1% of the then outstanding shares of common stock of our company or (2) the average weekly trading volume in common stock during the four calendar weeks preceding such sale. A person that is not an affiliate and has held restricted securities for at least two years is entitled to sell such shares without any limitation.

WE WILL HAVE A COMPARATIVELY LOW NUMBER OF SHARES OF COMMON STOCK AND WARRANTS OUTSTANDING AND, THEREFORE, OUR COMMON STOCK AND WARRANTS MAY SUFFER FROM LIMITED LIQUIDITY AND THEIR PRICES WILL LIKELY BE VOLATILE AND THEIR VALUE MAY BE ADVERSELY AFFECTED.

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

WE HAVE NO PLANS TO PAY DIVIDENDS ON OUR COMMON STOCK; YOU WILL NOT RECEIVE FUNDS WITHOUT SELLING YOUR SHARES.

We have no plans to pay dividends on our common stock in the foreseeable future. We intend to invest our future earnings, if any, to fund our growth. If we were to pay dividends in the future, it would be subject to the consent of our lender and at the discretion of our board of directors based on their assessment of a number of factors concerning our financial condition and prospects as well as any contractual or legal restrictions on dividends.

OUTSTANDING DERIVATIVE SECURITIES MAY DILUTE THE VALUE OF YOUR INVESTMENT.

We have issued and outstanding options and warrants to acquire up to 916,270 shares of our common stock at exercise prices ranging from $2.00 to $3.25 per share and a warrant to purchase 38,165 shares of our 10% Convertible Series A Preferred Stock at $3.25 per share. Under the terms of the options and warrants, the holders will have an opportunity to profit from a rise in the market price of our common stock without assuming the risks of ownership. This may have an adverse effect on the terms upon which we could obtain additional capital. It should be expected that the holders of such options and warrants will exercise them at a time when we would be able to issue stock at prices higher than the exercise prices of the options and warrants.

WE MUST EVALUATE OUR INTANGIBLE ASSETS ANNUALLY FOR IMPAIRMENT.

Our intangible assets are recorded at cost less accumulated amortization and consist of goodwill and patent costs. Through December 31, 2001, goodwill was amortized using the straight-line method over 15 years and patent costs were amortized over 13 to 15 years.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." SFAS 142 provides that: 1) goodwill and intangible assets with indefinite lives will no longer be amortized; 2) goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and 3) the amortization period for intangible assets with finite lives will no longer be limited to forty years. In the event that we determine our intangible assets with indefinite lives have been impaired, we must record a write-down of those assets on our statement of operations during the period of impairment. Our determination of impairment will be based on various factors, including any of the following factors, if they materialize:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- our market capitalization relative to net book value.

We adopted SFAS 142 as of January 1, 2001. Although we do not believe that adoption of SFAS 142 will have a material adverse effect on us, it could in the future result in impairments of our intangible assets or goodwill. We expect to continue to amortize our intangible assets with finite lives over the same time periods as previously used, and we will test our intangible assets with indefinite lives for impairment at least once each year. In addition, we are required to assess the consumptive life, or longevity, of our intangible assets with finite lives and adjust their amortization periods accordingly. Our net intangible assets were recorded on our balance sheet at approximately $2,800,000 as of March 31, 2002, and we expect the carrying value of net intangible assets will increase significantly if we acquire additional businesses. Any impairments in future periods of those assets, or a reduction in their consumptive lives, could materially and adversely affect our statement of operations and financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 requires the recognition of an impairment loss if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measures the impairment loss as the difference between the carrying amount and fair value of the assets. Although we do not believe that the requirements of SFAS 144 will have a material adverse effect on us, it could in the future require material write-downs of our long-lived assets.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains forward-looking statements. These statements relate to future events or our future financial performance, including our business strategy and product development plans, and involve known and unknown risks and uncertainties. These risks and other factors include those listed under "Risk Factors" and elsewhere in this prospectus. These factors may cause our actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "intends," "plans," "anticipated," "believes," "estimated," "potential," or the negative of these terms or other comparable terminology.

When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the 1,650,000 shares of common stock and 1,650,000 warrants in this offering, assuming a combined initial public offering price of $6.00 per share and warrant, will be approximately $8,310,000. If the underwriters exercise their over-allotment options in full, our net proceeds will be approximately $9,602,000. Our net proceeds is the amount we expect to receive from this offering after deducting the underwriting discounts and estimated offering expenses payable by us. We intend to use these proceeds for the following purposes:

- $3,500,000 to reduce indebtedness;
- $4,700,000 for the manufacture of gas compressors; and
- the remainder for working capital.

The $3,500,000 allocated to pay indebtedness was incurred in connection with our acquisition of the compression related assets of Dominion Michigan. After the payment, we will still owe approximately $3,500,000 to Dominion Michigan. The balance will bear interest at a rate of nine percent per annum and will be due in March 2003. We have secured a letter from a bank, wherein the bank, subject to certain conditions, indicated that it plans to loan us a sufficient amount to pay the balance of the amount we owe to Dominion Michigan over a 5 year period. The letter is an indication of the bank's intent but is not a commitment from the bank.

If the underwriters exercise their over-allotment options, we will allocate the additional net proceeds of up to $1,292,000 to working capital. Working capital will be used to pay such items as rent, office expenses, equipment, equipment repairs, salaries and our other day-to-day costs of doing business.

The previous paragraphs describe our present estimates of our use of the net proceeds of this offering based on our current plans and estimates of anticipated expenses. Our actual expenditures may vary from these estimates. We may also find it necessary or advisable to reallocate the net proceeds within the uses outlined above or to use portions of the net proceeds for other purposes.

Pending these uses, we will invest the net proceeds of this offering primarily in cash equivalents or direct or guaranteed obligations of the United States government.

DIVIDEND POLICY

We have never declared or paid any dividends on our common stock. We anticipate that, for the foreseeable future, all earnings will be retained for use in our business and no cash dividends will be paid to holders of our common stock. If we were to pay cash dividends in the future on the common stock, it would be dependent upon our:

- financial condition,
- results of operations,
- current and anticipated cash requirements,
- plans for expansion,
- restrictions, if any, under debt obligations,

as well as other factors that our board of directors deemed relevant. Our agreement with our bank contains provisions that restrict us from paying dividends on our common stock.

We have 381,654 shares of our 10% Convertible Series A Preferred Stock outstanding. Holders of that stock are entitled to cash dividends paid quarterly at a rate equal to 10% per annum or $0.325 per share annually. The 10% Convertible Series A Preferred stock will automatically convert into our common stock at any time after six months from the closing of this offering, if our common stock trades for 20 consecutive trading days after the six month period at a price of $6.50 or more per share.

DILUTION

As of March 31, 2002, we had a net tangible book value of $3,093,572 or approximately $0.92 per share of common stock. After giving effect to the sale of 1,650,000 shares of common stock at an assumed initial offering price of $5.75 per share, our pro forma net tangible book value, based on 5,007,632 shares of common stock outstanding as of March 31, 2002, would have been $11,032,322 or $2.20 per share of common stock. This amount represents an immediate increase in pro forma net tangible book value of $1.28 per share of common stock to the existing holders of common stock and an immediate dilution of $3.55 per share of common stock to new investors. "Dilution" is determined by subtracting pro forma net tangible book value per share of common stock after the offering from the offering price per share of common stock, as illustrated by the following table:

Assumed initial public offering price per share of common stock...		$ 5.75
Net tangible book value per share of common stock as of March 31, 2002....................................	$ 0.92	
Increase in pro forma net tangible book value per share of common stock attributable to new investors.....................	$ 1.28	
Pro forma net tangible book value per share of common stock after the offering......................................		$ 2.20
Dilution per share of common stock to new investors..............		$ 3.55
Dilution as percentage of assumed offering price.................		61.7%

The following table sets forth as of March 31, 2002, the number of shares of common stock acquired from us, the total cash consideration paid to us and the average cash price per share of common stock paid to us by our existing shareholders and by new investors (assuming the sale of 1,650,000 shares of common stock at an assumed initial public offering price of $5.75 per share, before deduction of the underwriting discount and other estimated offering expenses):

	SHARES PURCHASED		VALUE OF CONSIDERATION PAID		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing shareholders.......	3,357,632	67.1%	$ 3,456,131	26.7%	$1.03
New investors...............	1,650,000	32.9	9,487,500	73.3	$5.75
Total.......................	5,007,632	100.0%	$12,943,631	100.0%	

The foregoing information assumes no conversion of our outstanding preferred stock, no exercise of the warrants being offered hereby, no exercise of outstanding options and warrants and no exercise of the underwriters' over-allotment options for the purchase of common stock and warrants. To the extent that outstanding preferred stock is converted or outstanding options or warrants are exercised at prices below the assumed public offering price of $5.75 per share of common stock, there will be further dilution to investors.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2002. Our capitalization is presented:

- on an actual basis; and
- on an as adjusted basis to reflect our receipt of the estimated net proceeds from the sale of 1,650,000 shares of common stock at an assumed initial public offering price of $5.75 per share and 1,650,000 warrants at $0.25 per warrant, after deducting underwriting discounts and other estimated offering expenses.

	MARCH 31, 2002 ACTUAL	MARCH 31, 2002 AS ADJUSTED
Borrowings:		
Bank line of credit	$ 675,000	$ 675,000
Subordinated notes	1,290,257	1,290,257
Capital leases	53,719	53,719
Long-term debt	9,723,826	6,223,826
Total Borrowings:	$11,742,802	$ 8,242,802
Shareholders' equity:		
Preferred Stock, par value $0.01 per share; 5,000,000 shares authorized; 381,654 shares issued and outstanding	3,817	3,817
Common stock, $0.01 par value 30,000,000 shares authorized; 3,357,632 shares issued and outstanding, 5,007,632 shares issued and outstanding, as adjusted	33,576	50,076
Additional paid-in capital	4,455,495	12,748,995
Retained earnings	1,352,377	1,352,377
Total shareholders' equity	$ 5,845,265	$14,155,265
Total capitalization	$17,588,067	$22,398,067

The foregoing table does not give effect to:

- 916,270 shares of common stock issuable on exercise of outstanding options and warrants;
- 1,650,000 shares of common stock issuable on exercise of the warrants being offered hereby;
- 247,500 shares of common stock issuable upon exercise of the underwriters' over-allotment option for common stock; and
- 247,500 warrants issuable upon exercise of the underwriters' over-allotment option for warrants.

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the selected consolidated data for the fiscal years ended December 31, 1999, 2000 and 2001, and for the three months ended March 31, 2002, in the tables below together with our consolidated financial statements and the related notes and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus. Our historical results are not necessarily indicative of our future results.

SUMMARY CONSOLIDATED INCOME AND OTHER DATA(1):
(in thousands)

	FOR THE YEAR ENDED DECEMBER 31			THREE MONTHS ENDED MARCH 31	
	1999	2000	2001	2001	2002
				(unaudited)	
Total revenue	$ 2,629	$ 3,652	$ 8,762	$ 1,410	$ 2,690
Total costs of revenue	1,194	1,535	4,942	830	1,680
Gross profit	1,435	2,117	3,820	580	1,010
Total operating expenses	1,070	1,594	2,621	472	653
Income from operations	365	523	1,199	108	357
Total other income (expense)	(26)	(159)	(503)	(31)	(172)
Income from continuing operations before income taxes	339	364	696	77	185
Total income tax expense	98	147	314	27	89
Income before discontinued operations	241	217	382	50	96
Discontinued operations (2)	(212)	692	--	--	--
Net income	$ 29	$ 909	$ 382	$ 50	$ 96
Preferred dividends	--	--	11	--	44
Net income available to common shareholders	$ 29	$ 909	$ 371	$ 50	$ 52
PER COMMON SHARE DATA:					
Basic	$ .01	$ .27	$ .11	$ .02	$ .02
Diluted	$ .01	$ .27	$ .11	$ .02	$ .01
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING					
Basic	3,357,632	3,357,632	3,357,632	3,357,632	3,357,632
Diluted	3,357,632	3,357,632	3,483,987	3,357,632	3,798,176
EBITDA (3)	$ 507	$ 1,619	$ 2,523	$ 280	$ 697

SUMMARY CONSOLIDATED BALANCE SHEET DATA (1):

	DECEMBER 31, 2001	MARCH 31, 2002	
	ACTUAL	ACTUAL	AS ADJUSTED
Current assets	$ 3,248	$ 3,490	$ 8,300
Total assets			

18,810 19,568 24,378
Current liabilities
.... 2,049
9,761 6,261
Shareholders' equity
.... 5,781
5,845 14,155

CONSOLIDATED STATEMENT OF CASH FLOWS (1):

	FOR THE YEAR ENDED DECEMBER 31			FOR THE PERIOD ENDED MARCH 31	
	1999	2000	2001	2001	2002
Cash flows provided by (used in) operating activities	$ 307	$ (253)	$ 840	$ (89)	$ (77)
Cash flow used in investment activities......	(1,116)	(1,836)	(3,087)	(1,388)	(705)
Cash flow provided by financing activities	2,248	698	2,611	1,357	412

INFORMATION PERTAINING TO COMPRESSORS LEASED

	COMPRESSORS LEASED		
	1999	2000	2001
Leased at beginning of year...........	14	41	75
Leased during year....................	27	34	152
Returned during year..................	0	0	20
Leased at year end....................	41	75	207

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(1) The financial information reflects the acquisition by us of the compression related assets of Dominion Michigan on March 29, 2001. The purchase price was $8,000,000 of which $1,000,000 was paid at closing and the net balance was financed by Dominion Michigan. The operations and assets of Dominion Michigan are included in our consolidated financial statements commencing on April 1, 2001.

(2) On March 31, 2000, we disposed of CNG in a transaction whereby we transferred all of the common stock of CNG to the former owner in exchange for all of the former owner's shares of our outstanding common stock (692,368 shares) and a note receivable for $350,000. During the year ended December 31, 2000, the former owner defaulted on all payments due under the note receivable, and the entire amount has been reserved and reflected as a reduction in the gain from discontinued operations. The sale resulted in a non-taxable gain from discontinued operations of approximately $944,000. Pre-tax loss from discontinued operations of approximately $232,000 in the summary consolidated statement of income data reflects the net loss from operations of CNG from January 1, 2000 through the date of disposal. Total revenue of CNG was approximately $3,915,000 in 1999 and approximately $828,000 from January 1, 2000 through the date of disposal.

(3) The row entitled "EBITDA" reflects net income or loss plus depreciation, amortization, interest expense, income taxes and other non-cash charges. EBITDA is a measure used by analysts and investors as an indicator of operating cash flow since it excludes the impact of movements in working capital items, non-cash charges and financing costs. However, EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered a substitute for other financial measures of performance. EBITDA as calculated by us may not be comparable to EBITDA as calculated and reported by other companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and attached notes thereto and the other financial information included elsewhere in this prospectus. This discussion contains forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of any number of factors, including those set forth under the section entitled, "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We combine the operations of Rotary Gas Systems, NGE Leasing and Great Lakes. These entities provide products and services to the oil and gas industry and are engaged in (1) the manufacture, sale and rental of natural gas compressors to enhance the productivity of oil and gas wells, and (2) the manufacture, sale and rental of flares and flare ignition systems for plant and production facilities.

We acquired the compression related assets of Great Lakes from Dominion Michigan on March 29, 2001. This acquisition significantly increased the number of compressor units that we own and service and thereby increased our revenue and operating income beginning April 1, 2001.

RESULTS OF OPERATIONS

PERIOD ENDED MARCH 31, 2001 COMPARED TO THE PERIOD ENDED MARCH 31, 2002

	ROTARY GAS	NGE LEASING	GREAT LAKES COMPRESSION(1)	TOTAL
THREE MONTHS ENDED MARCH 31, 2001				
Revenue	$ 1,067	$ 343	$ 801	$ 2,211
Gross margin	327	253	454	1,034
Gross margin percentage	31%	74%	57%	47%
THREE MONTHS ENDED MARCH 31, 2002				
Revenue	$ 867	$ 499	$ 1,324	$ 2,690
Gross margin	246	362	402	1,010
Gross margin percentage	28%	73%	30%	38%

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(1) We purchased the compression related assets of Great Lakes from Dominion Michigan on March 29, 2001. The 2001 information in this chart is not included in our consolidated financial statements, but is taken from the unaudited statements of revenue and direct expenses of the Assets Acquired by Great Lakes Compression, Inc. included on page F-21 of this prospectus and is included here for comparison purposes.

Rotary Gas Systems Operations

Revenue decreased approximately $200,000 or approximately 19% for the period ended March 31, 2002 compared to the period ended March 31, 2001. Because our products are custom-built, fluctuations in revenue are expected. Our main focus is to build our rental fleet and lease revenue in NGE Leasing.

The gross margin percentage decreased from 31% for the period ended March 31, 2001 to 28% for the period ended March 31, 2002. The slight decrease resulted mainly from some change in the mix of the

sales of various products that each have difference gross margins. Such products include compressors, flares and parts and service associated with rebuilding gas compressors for third-party customers.

NGE Leasing Operations

Revenue from rental of natural gas compressors increased 45% for the period ended March 31, 2002, compared to the same period in 2001. This increase is the result of the increase in our rental fleet of which 24 new compressors were added during the three months ended March 31, 2002, as compared to the addition of five during the 2001 period. The compressors were manufactured by Rotary Gas Systems.

The gross margin percentage decreased 1% from 74% for the period ending March 31,2001 to 73% for the same period in 2002. The cost of revenue is comprised mainly of expenses associated with the maintenance of the gas compressor rental activity. This increase resulted from the fact that the cost of equipment maintenance will naturally increase over time as the equipment ages. The expected life of a gas compressor unit will exceed 15 years with routine maintenance and a major overhaul every three to four years.

Great Lakes Compression

We acquired the compression related assets of Great Lakes from Dominion Michigan as of March 29, 2001. The financial information for Great Lakes was taken from the unaudited statements of revenue and direct expenses of the Assets Acquired by Great Lakes Compression, Inc. included on page F-21 of this prospectus. Revenue increased approximately $523,000 or approximately 65% from approximately $801,000 for the period ended March 31, 2001 to approximately $1,324,000 for the period ended March 31, 2002. Great Lakes' revenue is composed of three major components: (1) gas compressor sales of manufactured equipment, (2) rental of gas compressors and (3) service labor and sales of parts for gas compressor maintenance to third party customers. The major reasons for the increase in revenue during the period resulted from the sales of two gas compressors for a total of approximately $353,000 to an affiliate of Dominion during the first quarter of 2002 and the increase in sales resulting from increased marketing by us after the acquisition.

The gross margin percentage decreased from approximately 57% to approximately 30% for the three month period ended March 31, 2002 from the three month period ended March 31, 2001. This decrease resulted mainly from several gas compressor units being idle during the three month period ended March 31, 2002 and because service labor activity for the period was below average for that time of the year. Most of the units that were idle at the beginning of the period were put back in service by the end of the period.

FISCAL YEAR ENDED DECEMBER 31, 2000 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2001

	ROTARY GAS	NGE LEASING	GREAT LAKES COMPRESSION(1)	TOTAL
TWELVE MONTHS ENDED DECEMBER 31, 2000				
Revenue	$ 2,576	$ 1,076	$ 3,654	$ 7,306
Gross margin	1,291	826	1,521	3,638
Gross margin percentage	50%	77%	42%	50%
TWELVE MONTHS ENDED DECEMBER 31, 2001				
Revenue	$ 3,841	$ 1,519	$ 4,203	$ 9,563
Gross margin	1,231	1,076	1,967	4,274
Gross margin percentage	32%	71%	47%	45%

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(1) The information for 2001 is annualized to include Dominion Michigan's financial information for the first quarter of 2001 prior to our purchase of the assets of Great Lakes from Dominion Michigan. The information for the first quarter of 2001 and the year ended December 31, 2000, is not included in our consolidated financial statements, but is taken from the statements of revenues and direct expenses of the Assets Acquired by Great Lakes Compression, Inc. included on page F-21 of this prospectus, and included here for comparison purposes.

Rotary Gas Systems Operations

Revenue increased approximately $1,250,000 or approximately 48% for the twelve months ended December 31, 2001 as compared to the same period for 2000. This increase resulted from our increased marketing efforts and funding as well as from increased recognition in the marketplace of our name and products.

The gross margin percentage decreased from 50% for the twelve months ended December 31, 2000 to 32% for the same period in 2001. This decrease was the result of several factors, such as (1) in 2000 the product mix included higher margin items such as flares, parts and service, (2) in 2001 the cost of revenue included additional costs for increased support personnel and supervision, intended to increase our production capability for 2001 and beyond, and (3) in 2001 we had increased expenses attributable to our work on development of several new product lines, including larger horsepower gas compressors for third party customers.

NGE Leasing Operations

Revenue from rental of natural gas compressors increased 42% for the period ended December 31, 2001 as compared to the same period in 2000. This increase resulted from the addition of 40 new gas compressors to the rental fleet during the twelve months ended December 31, 2001 as compared to 34 in operation in 2000. These compressors were manufactured by Rotary Gas Systems.

The gross margin percentage decreased 6% from 77% for the period ending December 31, 2000 to 71% for the same period in 2001. The cost of revenue is comprised primarily of expenses associated with the maintenance and repair of the gas compressors. This decrease in gross margin resulted from the fact that the cost of maintenance and repair will naturally increase over time as the equipment ages.

Great Lakes Compression

We acquired the compression related assets of Great Lakes from Dominion Michigan as of March 29, 2001. The information for 2001 is annualized to include Great Lakes' financial information for the first quarter of 2001 prior to our purchase of compression related assets of Great Lakes from Dominion. Great Lakes' revenue increased slightly by approximately $549,000 or 15% for the twelve months ended December 31, 2001 as compared to the twelve months ended December 31, 2000. The increase was a result of the sale of a different mix of products from year to year. Great Lakes' revenue is composed of three major components: (1) sales of gas compressors, (2) rental of gas compressors and (3) service labor and sales of parts for gas compressor maintenance to third party customers.

The gross margin percentage increased from approximately 42% to approximately 47% for the twelve months ended December 31, 2001 as compared to the same period in 2000. This increase resulted mainly from the implementation of new management controls and procedures during the transition period after we acquired the compression related assets of Great Lakes from Dominion Michigan.

CRITICAL ACCOUNTING POLICIES

We have identified the policies below as critical to our business operations and the understanding of our results of operations. In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Our critical accounting policies are as follows:

- revenue recognition;
- estimating the allowance for doubtful accounts;
- accounting for income taxes;
- valuation of long-lived and intangible assets and goodwill; and
- valuation of inventory

Revenue recognition

We recognize revenue from sales of compressors or flare systems at the time of shipment and passage of title when collectability is reasonably assured. We also offer certain of our customers the right to return products that do not function properly within a limited time after delivery. We continuously monitor and track such product returns and we record a provision for the estimated amount of such future returns, based on historical experience and any notification we receive of pending returns. While such returns have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same return rates that we have in the past. Any significant increase in product failure rates and the resulting credit returns could have a material adverse impact on our operating results for the period or periods in which such returns occur.

When product is billed to customers based on contractual agreements, but has not yet been shipped, payments are recorded as deferred revenue, pending shipment.

Rental and lease revenue are recognized over the terms of the respective lease agreements based upon the classification of the lease.

Allowance for doubtful accounts receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Since our accounts receivable are concentrated in approximately 81 customers at March 31, 2002, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectability of our accounts receivables and our future operating results.

Accounting for income taxes.

As part of the process of preparing our consolidated financial statements we are required to estimate our Federal income taxes as well as income taxes in each of the states in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense in the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets.

Valuation of long-lived and intangible assets and goodwill.

We assess the impairment of identifiable intangibles, long-lived assets and related goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and

- significant negative industry or economic trends;

When we determine that the carrying value of intangibles, long-lived assets and related goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

In 2002, Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" became effective and as a result, we ceased to amortize approximately $2.6 million of goodwill as of January 1, 2002. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. Based upon appraisals of our assets we obtained in 2001, we currently do not expect to record an impairment charge upon completion of the initial impairment review. However, there can be no assurance that at the time the review is completed a material impairment charge will not be recorded. We will complete its test for goodwill impairment in the second quarter of 2002.

Inventories

We value our inventory at the lower of the actual cost to purchase and/or manufacture the inventory or the current estimated market value of the inventory. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets . SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for under the purchase method. For all business combinations for which the date of acquisition is after June 30, 2001, SFAS 141 also establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain, rather than deferred and amortized. SFAS 142 changes the accounting for goodwill and other intangible assets after an acquisition.

The most significant changes made by SFAS 142 are: 1) goodwill and intangible assets with indefinite lives will no longer be amortized; 2) goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and 3) the amortization period for intangible assets with finite lives will no longer be limited to forty years. We do not believe that the adoption of SFAS 141 will have a material effect on our financial position, results of operations, or cash flows. The Company is currently evaluating the effect that the impairment review may have on its consolidated results of operation and financial position. See Note 15 to the financial statements filed with this prospectus.

In June 2001, the FASB also approved for issuance SFAS 143, Asset Retirement Obligations. SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including 1) the timing of the liability recognition, 2) initial measurement of the liability, 3) allocation of asset retirement cost to expense, 4) subsequent measurement of the liability and 5) financial statement disclosures. SFAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. We will adopt the statement effective no later than January 1, 2003, as required. The transition adjustment resulting from the adoption of SFAS 143 will be reported as a cumulative effect of a change in accounting principle. We do not believe that the adoption of this statement will have a material effect on its financial position, results of operations, or cash flows. See Note 15 to the financial statements filed with this prospectus.

In October 2001, the FASB approved SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 replaces SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The new accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business. Statement 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. Statement 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Presently, we do not believe the adoption of this statement will have a material effect on our financial position, results of operations, or cash flows.

SEASONALITY AND ECONOMIC CONDITIONS

Our sales are affected by the timing of planned development and construction projects by energy industry customers. The fourth quarter is generally favorably affected.

INFLATION

We do not believe that inflation had a material impact upon our results of operations during the three months ended March 31, 2002, or during the years ended December 31, 2001 and 2000.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations through private offerings of our common and preferred stock, subordinated debt, bank debt and seller debt in our acquisition of the compression related assets of Dominion Michigan. Proceeds were primarily used to fund the manufacture and fabrication of additional units for our rental fleet of gas compressors and to help fund the cash portion of the payment for the compression related assets of Dominion Michigan during the first quarter of 2001.

At March 31, 2002, we had cash of approximately $136,000, a working capital deficit of approximately $6,300,000 and debt of approximately $9,700,000 of which approximately $7,800,000 was classified as current. We had approximately $78,000 of negative net cash flow from operating activities during the first three months of 2002. This was primarily due to income from continuing operations before tax of approximately $185,000 plus depreciation and amortization of approximately $254,000, for a total of approximately $439,000, offset by increases in inventory and receivables.

We realized approximately $840,000 of net cash flow from operating activities during 2001. This was primarily due to income from continuing operations before tax of approximately $696,000 plus depreciation and amortization of approximately $909,000, for a total of approximately $1,605,000, offset by increases in inventory and receivables.

Upon completion of this offering, we intend to actively pursue adding gas compressors to our rental fleet and seeking acquisitions. No specific candidates have yet been identified. We expect to fund additional rental units though borrowings and cash flow from operations. We believe that the revenue generated by our operations and the proceeds from this offering will be adequate to meet our anticipated cash, capital and debt service requirements for approximately twelve months following this offering.

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

2002	$ 904,000
2003	7,624,000
2004	690,000
2005	309,000
2006	195,000
Thereafter	222,000
	$ 9,954,000

Through the end of December 2002, we will need approximately $1,751,000 to service the principal and interest payments that will be due on our current debt. The approximately $1,751,000 includes approximately $154,000 of interest that will be due on December 31, 2002, on notes we sold in a private offering in 2000 and 2001. If we do not have sufficient cash flow to cover the principal and interest payments, we will not be able to pay the quarterly dividends on our outstanding preferred stock. In this regard, until Dominion Michigan is paid in full, we currently are not able to use any cash flow from the operations of Dominion Michigan to pay the principal and interest payments or dividends.

As a result of the issuance of warrants with an exercise price of $3.25 per share in April 2002 in connection with guaranteeing debt, we expect to incur an accounting expense of approximately $45,000 to $50,000 during our second three months ending June 30, 2002.

MARKET RISK

We significantly rely upon debt financing provided by various financial institutions. Most of these instruments contain interest provisions that are at least a percentage point above the published prime rate. This creates a vulnerability to us relative to the movement of the prime rate. Should the prime rate increase, our cost of funds will increase and affect our ability to obtain additional debt. We have not engaged in any hedging activities to offset such risks.

BUSINESS

OVERVIEW

We were incorporated on December 17, 1998. In early 1999, we underwent a reorganization by acquiring CNG Engines Company, Flare King, Inc., Hi-Tech Compressor Company, L.C. and NGE Leasing, Inc. In March 2000, we sold CNG back to its former principal owner. In July 2000, Flare King and Hi-Tech merged and now operate as Rotary Gas Systems, Inc. On March 29, 2001, we acquired, through our subsidiary, Great Lakes Compression, Inc., all of the compression related assets of Dominion Michigan Petroleum Services, Inc., a company that was in the business of manufacturing, fabricating, selling, leasing and maintaining natural gas compressors and related equipment. We now operate through our three subsidiaries, Rotary Gas, NGE Leasing and Great Lakes Compression and through one joint venture, HyBon Rotary.

Our principal executive offices are located at 2911 South County Road 1260, Midland, Texas 79706 and our telephone number is (915) 563-3974.

ACQUISITION OF COMPRESSION RELATED ASSETS OF DOMINION MICHIGAN

On March 29, 2001, we acquired the compression related assets of Dominion Michigan, which is a subsidiary of Dominion Exploration, Inc., for a total of $8,000,000. The purchase price was reduced by approximately $43,600 which was the net cash generated from the assets acquired from January 1, 2001 to the date of closing.

In consideration for the assets, we paid Dominion Michigan $1,000,000 and are obligated to pay an additional approximately $7,000,000 in March, 2003. The deferred purchase price bears interest at a rate of nine percent per annum, which is payable on the first business day of each month. The deferred purchase price is secured by all of the assets we acquired and the pledge of all of our stock ownership in our subsidiary that acquired the assets.

The assets acquired consisted of approximately five acres of land, fabrication and storage facilities, equipment and 93 compressors that are leased. Of the 93 compressors, 35 are leased to Dominion Michigan and its affiliates and 58 are leased month-to-month to other parties. We also assumed six leases of compressors and maintenance agreements for 77 other compressors. Further, as a part of the transaction, Dominion Exploration & Production, Inc., an affiliate of Dominion Michigan, committed to purchase or enter into five year leases for compressors totaling five thousand horsepower. The purchases or leases are to be made by December 31, 2005, and the compressors will be sold or leased by us at our normal rates.

Dominion Exploration has agreed that no more than 30% of the compressors will be purchased and that 70% (or more at its option) will be leased. Dominion Exploration is required to order compressors, either for purchase or lease totaling not less than 800 horsepower and not more than 1300 horsepower during each calendar year. The number of compressor units and the size and type of each compressor unit will be determined solely by Dominion Exploration. As of March 31, 2002, the affiliate had purchased or leased compressors totaling 1,830 horsepower and was in compliance with its agreement.

Until we have paid the deferred purchase price, our subsidiary is limited in the amount of debt and liens it may have, restricted from consolidating or merging with or into any other entity or selling or otherwise transferring all or any substantial part of its assets to any other person, is prohibited from paying dividends, is limited in making investments and is limited in making capital expenditures.

OUR BUSINESS

The compression business of our predecessors was formed in 1984 to take advantage of the concept of packaging a rotary screw compressor thereby making available lower cost compression for marginal wells. We are involved in the manufacture, fabrication, sale, lease, and maintenance of compressors and the manufacture and sale of natural gas flare systems, components and ignition systems. We have manufacturing and fabrication facilities located in Lewiston, Michigan, and Midland, Texas, where we manufacture and fabricate natural gas compressors. We design and manufacture natural gas flare systems, components and ignition systems in our facility in Midland, Texas, for use in oilfield, refinery and petrochemical plant applications.

We currently provide our products and services to a customer base of oil and gas exploration and production companies operating primarily in Colorado, Kansas, Louisiana, Michigan, New Mexico, Oklahoma, Texas and Wyoming.

INDUSTRY BACKGROUND

Our products and services are related to the oil and natural gas industries. The oil and natural gas industry is comprised of several large, well-capitalized companies accounting for the majority of the market. There also exist a large number of small privately held companies making up the remainder of the market. There is a growing consumption of natural gas in this country.

We believe that there will continue to be a growing demand for natural gas. Because of this, demand for our products and services is expected to continue to rise as a result of:

- the increasing demand for energy, both domestically and abroad;
- environmental considerations which provide strong incentives to use natural gas in place of other carbon fuels;
- the cost savings of using natural gas rather than electricity for heat generation;
- implementation of international environmental and conservation laws;
- the aging of producing natural gas reserves worldwide; and
- the extensive supply of undeveloped natural gas reserves.

By using a compressor, the operator of a natural gas well is able to increase the pressure of natural gas from a well to make it economically viable by enabling gas to continue to flow in the pipeline to its destination. We feel that we are well positioned through our gas compression and flare system activities to take advantage of the aging of reserves and the development of new reserves.

THE COMPRESSION BUSINESS

Natural gas compressors are used in a number of applications intended to enhance the productivity of oil and gas wells, gas transportation lines and processing plants. Compression equipment is often required to boost a well's production to economically viable levels and enable gas to continue to flow in the pipeline to its destination. We believe that most producing gas wells in North America, at some point, will utilize compression. As of December 31, 2000, the Energy Information Administration reported that there were approximately 306,000 producing gas and gas condensate wells in the United States. The states where we currently operate account for approximately 166,000 of these wells.

THE LEASING BUSINESS

We primarily lease natural gas compressors. As of March 31, 2002, we had 220 natural gas compressors totaling approximately 27,000 horsepower leased to 23 third parties, compared to 73 natural gas compressors totaling approximately 6,400 horsepower leased to nine third parties at March 31, 2001. Of the 220 natural gas compressors, 44 were leased to Dominion Michigan and its affiliates.

As a part of our leasing business, in 2000 we formed a limited liability company, Hy-Bon Rotary Compression LLC, ("HBRC") with a non-affiliated company to lease natural gas compressors. We formed HBRC to lease compressors to a customer with which the non-affiliated company had a relationship. The non-affiliated company owns 50% and we own 50% of HBRC. The non-affiliated company has appointed a majority of the persons who serve as managers of HBRC. As of March 31, 2002, we had contributed 26 compressors totaling approximately 2,100 horsepower to HBRC and the non-affiliated company had contributed 26 compressors totaling approximately 2,300 horsepower to HBRC. We split the expenses of HBRC with the other company. After the payment of expenses, we receive whatever profit is realized by HBRC in proportion to the amount received by HBRC from the lease of natural gas compressors that are contributed by us and by the non-affiliated company to HBRC.

In addition to 81 separate written maintenance agreements that we had at March 31, 2002, we provide maintenance as a part of the rental in our compressor leases. Many companies and individuals are turning to leasing of equipment instead of purchasing. Leasing does not require the purchaser to make large capital expenditures for new equipment or to obtain financing through a lending institution. This frees the customer's assets for developing the customer's business. Our leases generally have initial terms of from six to 18 months and then continue on a month-to-month basis. The leases with Dominion Exploration have an initial five year term. Lease rentals are paid monthly. At the end of a lease term, the customer may continue to pay monthly rentals on the equipment, or we may require them to purchase it or return it to us.

Changing well and pipeline pressures and conditions over the life of a well often require producers to reconfigure their compressor units to optimize the well production or pipeline efficiency. Because the equipment is highly technical, a trained staff of field service personnel, a substantial parts inventory and a diversified fleet of natural gas compressors are often necessary to perform reconfiguration functions in an economic manner. It is not efficient or, in many cases, economically possible for independent natural gas producers to maintain reconfiguration capabilities individually. Also, our management believes that, in order to streamline their operations and reduce their capital expenditures and other costs, a number of major oil and gas companies have sold portions of their domestic energy reserves to independent energy producers and have outsourced many facets of their operations. We believe that these initiatives are likely to contribute to increased rental of compressor equipment. For that reason, we have created our own compressor-rental fleet to take advantage of the rental market, and intend to expand our fleet by approximately 120 natural gas compressors over the next 12 months through the proceeds of this offering and cash flow.

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

CUSTOM FABRICATION

We also engineer and fabricate natural gas compressors for our customers to meet their unique specifications based on well pressure, production characteristics and the particular applications for which

compression is sought. In order to meet the ongoing needs of our customers for whom we custom fabricate, we offer a variety of services, including: (i) engineering, manufacturing and fabrication of the compressors; (ii) installation and testing of compressors; (iii) ongoing performance review to assess the need for a change in compression: and (iv) periodic maintenance and parts replacement. We receive revenue for each service.

MAINTENANCE

Although natural gas compressors generally do not suffer significant technological obsolescence, they do require routine maintenance and periodic refurbishing to prolong their useful life. Routine maintenance includes alignment and compression checks and other parametric checks indicate a change in the condition of the compressors. In addition, oil and wear-particle analysis is performed on all compressors. Overhauls are done on a condition-based interval or a time-based schedule. Based on our past experience, these maintenance procedures maximize component life and unit availability and minimize downtime.

As of March 31, 2002, we had written maintenance agreements with third parties relating to 81 compressors. Each written maintenance agreement has four years left on its term and expires on December 31, 2005. During our year ended December 31, 2001, and the three months ended March 31, 2002, we received revenue of approximately $704,000 and $265,000, respectively, from maintenance agreements.

EXCHANGE AND REBUILD PROGRAM

We have established an exchange and rebuild program to attempt to help minimize costs and maximize our customers' revenue. This program is designed for operations with rotary screw compressors where downtime and lost revenue are critical.

Under the program, we work with our customer's maintenance and operating personnel to identify and quantify equipment for exchange. When we receive a compressor for exchange due to a problem with the compressor, we deliver to our customer a replacement compressor at full price. We then rebuild the exchange compressor and credit our customer with an amount based on the value of the compressor we rebuild.

This program enables our customers to obtain replacement compressors and shorten the time that the customer is unable to realize gas production from one or more wells because of the lack of a compressor.

During our year ended December 31, 2001, and the three months ended March 31, 2002, we received revenue of approximately $402,000 and approximately $67,000, respectively, from exchanging and rebuilding rotary screw compressors for our customers.

RETROFITTING SERVICE

We recognize the capital invested by our customers in compressors. We also recognize that producing wells and gas gathering systems change significantly during their operating life. To meet these changing conditions and help our customers maximize their operating income, we offer a retrofitting service by repackaging a customer's compressor with a compressor that meets our customer's changed conditions.

THE FLARE BUSINESS

The drilling for and production of oil and gas results in certain gaseous hydrocarbon byproducts that generally must be burned off at the source. Although flares and flare systems have been part of the oilfield and petrochemical environment for many years, increasing regulation of emissions has resulted in a significant increase in demand for flare systems of increasingly complex design meeting new environmental regulations. Growth is primarily related, as is the case for most industries connected with oil and gas, to the price of oil and gas and new environmental regulations.

We design, manufacture, install and service flare stacks and related ignition and control devices for the onshore and offshore burning of gas compounds such as hydrogen sulfide, carbon dioxide, natural gas and liquefied petroleum gases. We produce two ignition systems for varied applications: (a) a standing jet-like pipe for minimal fuel consumption, with a patented electronic igniter; and (b) an electronic sparked ignition system. Flare tips are available in carbon steel as well as many grades of stainless steel alloys. The stacks can be free standing, guyed, or trailer mounted. The flare stack and ignition systems use a smokeless design for reduced emissions to meet or exceed government regulated clean air standards. Our product line includes solar-powered flare ignition systems and thermocouple control systems designed to detect the loss of combustion in the product stream and reignite the product stream. These products contain specially-designed combustion tips and utilize pilot flow Venturi tubes to maximize the efficient burning of waste gas with a minimal use of pilot or assist gas, thereby minimizing the impact on the environment of the residual output. Increased emphasis on "clean air" and industry emissions has had a positive effect on the flare industry. Our broad energy industry experience has allowed us to work closely with our customers to seek cost-effective solutions to their flare requirements.

During the year ended December 31, 2001, and the three months ended March 31, 2002, we sold 54 and 10 flare systems. respectively, to our customers generating approximately $703,000 and $275,000 in revenue, respectively.

MAJOR CUSTOMERS

During the year ended December 31, 2001, sales to one customer amounted to 26% and during the year ended December 31, 2000, sales to one customer amounted to 12% of our consolidated revenue. No other single customer accounted for more than 10% of our revenue in either of those two years.

During the three months ended March 31, 2002, sales to one customer amounted to 34% of our consolidated revenue and during the three months ended March 31, 2001, sales to one customer amounted to 13% of our consolidated revenue. No other single customer accounted for more than 10% of our revenue during these periods.

BACKLOG

We had a backlog of approximately $54,000 as of March 31, 2002 as compared to approximately $636,000 as of the same date in 2001. The reduced backlog at March 31, 2002 results from us having more compressors being built for leasing rather than for sale. At March 31, 2001, our backlog included a number of compressors that were being built for sale. Backlog consists of firm customer orders for which a purchase order has been received, satisfactory credit or a financing arrangement exists, and delivery is scheduled. Our backlog at March 31, 2002, includes only sales to outside third parties and does not include the backlog that we may receive from the lease or sale of compressors over the next four years to Dominion Exploration.

CONTINUING PRODUCT RESEARCH AND DEVELOPMENT

We engage in a continuing effort to improve our compressor and flare operations. Research and development activities in this regard include new and existing product development testing and analysis, process and equipment development and testing, and product performance improvement. We also focus our activities on reducing overall costs to the customer, which include the initial capital cost for equipment, the monthly leasing cost if applicable, and the operating costs associated with such equipment, including energy consumption, maintenance costs and environmental emissions.

SALES AND MARKETING

General. We conduct our operations from two locations. These locations, with exception of our executive offices, maintain an inventory for local customer requirements, trained service technicians, and

manufacturing capabilities to provide quick delivery and service for our customers. Our sales force also operates out of these locations and focuses on communication with our customers and potential customers through frequent direct contact, technical assistance, print literature, direct mail and referrals. Our sales and marketing is performed by 6 employees.

Additionally, our personnel coordinate with each other to develop relationships with customers who operate in multiple regions. Our sales personnel maintain intensive contact with our operations personnel in order to promptly respond to and address customer needs. Our overall sales efforts concentrate on demonstrating our commitment to enhancing the customer's cash flow through enhanced product design, fabrication, manufacturing, installation, customer service and support.

During the years ended December 31, 2001 and 2000, we spent approximately $56,000 and approximately $12,000, respectively, on advertising.

During the three months ended March 31, 2002 and 2001, we spent approximately $9,000 and approximately $11,000, respectively, on advertising.

Compression Activity. The compression marketing program emphasizes our ability to design and fabricate natural gas compressors in accordance with the customer's unique specifications and to provide all necessary service for such compressors.

Flare Systems Activity. The flare systems marketing program emphasizes our ability to design, manufacture, install and service flares with the updated technology.

COMPETITION

Compression Activity. The natural gas compression business is competitive. We experience competition from companies with greater financial resources. On a regional basis, we experience competition from several smaller companies that compete directly with us. We have a number of competitors in the natural gas compression segment, but we do not have sufficient information to determine our competitive position within that group. We believe that we compete effectively on the basis of price, customer service, including the ability to place personnel in remote locations, flexibility in meeting customer needs and quality and reliability of our compressors and related services.

Compressor industry participants can achieve significant advantages through increased size and geographic breadth. As the number of rental compressors in our rental fleet increases, the number of sales, support, and maintenance personnel required and the minimum level of inventory does not increase commensurately. As a result of economies of scale, we believe that we, with a growing rental fleet, have relatively lower operating costs and higher margins than smaller companies.

Flare Systems Activity. The flare business is highly competitive. We have a number of competitors in the flare systems segment, but we do not have sufficient information to determine our competitive position within that group. We believe that we are able to compete by our offering products specifically engineered for the customer's needs.

PROPERTIES

We maintain our executive offices in Midland, Texas. This facility is owned by us and is used for manufacturing, fabrication, remanufacturing, operations, testing, warehousing and storage, general and administrative functions and training. Prior to September 2000 the facility was leased. The aggregate rental expense was approximately $33,000 in 2000. We purchased the building and land in September 2000 for approximately $329,000 (which includes closing costs) from an unaffiliated party.

The facility in Midland is an approximately 24,600 square foot building that provides us with sufficient space to manufacture, fabricate and test our equipment on site and has land available to expand the building when needed. Our current facilities in Midland are anticipated to provide us with sufficient space and capacity for at least the next year and thus there are no current plans to open new locations, unless they are acquired as a result of any future acquisitions.

The facilities in Lewiston, Michigan consist of a total of approximately 15,360 square feet. Approximately 9,360 square feet are used as offices and a repair shop and approximately 6,000 square feet are used for manufacturing and fabrication of compressors and storage.

We also own an approximate 4,100 square foot building in Midland that is leased at a current rate of $1,000 per month to an unaffiliated party pursuant to a lease that terminates in May 2005. This facility previously contained our executive offices and manufacturing and fabrication operations.

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

LIABILITY AND OTHER INSURANCE COVERAGE

Our equipment and services are provided to customers who are subject to hazards inherent in the oil and gas industry, such as blowouts, explosions, craterings, fires, and oil spills. We maintain liability insurance that we believe is customary in the industry. We also maintain insurance with respect to our facilities. Based on our historical experience, we believe that our insurance coverage is adequate.

GOVERNMENT REGULATION

We are subject to numerous federal, state and local laws and regulations relating to the storage, handling, emission and discharge of materials to the environment, including the Comprehensive Environmental Response, Compensation and Liability Act, the Clean Water Act, the Clean Air Act and the Resource Conservation and Recovery Act. As a result of our operations, we generate or manage hazardous wastes, such as solvents, thinner, waste paint, waste oil, washdown wastes and sandblast material. Although we attempt to identify and address contamination before acquiring properties, and although we attempt to utilize generally accepted operating and disposal practices, hydrocarbons or other wastes may have been disposed of or released on or under properties owned, leased, or operated by us or on or under locations where such wastes have been taken for disposal. These properties and the wastes or remedial sites where they have been released might have to be remediated at our expense.

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

PATENTS, TRADEMARKS AND OTHER INTELLECTUAL PROPERTY

We believe that the success of our business depends more on the technical competence, creativity and marketing abilities of our employees than on any individual patent, trademark, or copyright. Nevertheless, as part of our ongoing research, development and manufacturing activities, we have a policy of seeking patents

when appropriate on inventions concerning new products and product improvements. We currently own two United States patents covering certain flare system technologies, which expire in May 2006 and in January 2010, respectively. We do not own any foreign patents. Although we continue to use the patented technology and consider it useful in certain applications, we do not consider these patents to be material to our business as a whole.

SUPPLIERS AND RAW MATERIALS

With respect to our flare system and compressor operations, our raw materials used consist of cast and forged iron and steel. Such materials are generally available from a number of suppliers, and accordingly, we are not dependent on any particular supplier for these new materials. We currently do not have long term contracts with our suppliers of raw materials, but believe our sources of raw materials are reliable and adequate for our needs. We have not experienced any significant supply problems in the past.

Certain of our components of our compressors are obtained primarily from two suppliers. If either one of our current major suppliers should curtail its operations or be unable to meet our needs, we would encounter delays in supplying our customers with compressors until an alternative supplier could be found. We may not be able to find acceptable alternative suppliers.

EMPLOYEES

As of March 31, 2002, we had 71 employees, of which 10 are employed in administration, 5 in sales and marketing, 39 in technical and manufacturing capacities and 17 in field services. No employees are represented by labor unions and we believe that our relations with our employees are satisfactory.

LEGAL PROCEEDINGS

There are no pending or, to our knowledge, threatened claims against us. However, from time to time, we expect to be subject to various legal proceedings, all of which are of an ordinary or routine nature and incidental to our operations. Such proceedings have not in the past, and we do not expect they will in the future have, a material impact on our results of operations or financial condition.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The table below contains information about our executive officers and directors:

NAME	AGE	POSITION
Wallace O. Sellers(1)(2)	72	Director, Chairman
Wayne L. Vinson	43	Director and President
Scott W. Sparkman	40	Director and Secretary
Charles G. Curtis(1)(2)	69	Director
James T. Grigsby(1)(2)	54	Director
Alan P. Kurus	48	Vice President - Sales and Marketing
Earl R. Wait	58	Chief Financial Officer and Treasurer

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(1) Member of our audit committee

(2) Member of our compensation committee

The Board of Directors has been divided into three classes with directors serving staggered three-year terms expiring at the annual meeting of stockholders in 2002, 2003 and 2004, respectively. At each annual meeting of stockholders, one class of directors is elected for a full term of three years to succeed those directors in the class whose term is expiring. With respect to the existing Board of Directors, the terms of Mr. Curtis and Mr. Sellers will expire in 2005, the terms of Mr. Sparkman and Mr. Grigsby will expire in 2003; and the term of Mr. Vinson in 2004. All officers serve at the discretion of the Board of Directors.

The following sets forth biographical information for at least the past five years for our directors and executive officers.

WALLACE O. SELLERS is one of our founders and has served as a director and the Chairman of our Board of Directors since December 17, 1998, and as the Chairman of the Board of Directors of Great Lakes Compression since February 2001. Although Mr. Sellers retired in December 1994, he served as Vice-Chairman of the Board and Chairman of the Executive Committee of Enhance Financial Services, Inc., a financial guaranty reinsurer, from January 1995 to 2001. From November 1986 to December 1991 he was President and Chief Executive Officer of Enhance. Mr. Sellers serves as a director of Danielson Holding Corp., an insurance holding company which is a reporting company under the Securities Exchange Act of 1934. From 1951 to 1986 Mr. Sellers was employed by Merrill Lynch, Pierce, Fenner & Smith Incorporated, an investment banker, in various capacities, including Director of the Municipal and Corporate Bond Division and Director of the Securities Research Division. Immediately prior to his retirement from Merrill Lynch, he served as Senior Vice President and Director of Strategic Development. Mr. Sellers received a BA degree from the University of New Mexico, an MA degree from New York University and attended the Advanced Management Program at Harvard University. Mr. Sellers is a Chartered Financial Analyst.

WAYNE L. VINSON has served as one of our directors since April 2000, as our President since July 2001, as our Executive Vice President from October 31, 2000 to July 2001, as the President of Rotary (and its predecessor, Hi-Tech) since February 1994, as a director of NGE between 1996 and 1998 and as Executive Vice President of Great Lakes Compression since February 2001. He also served as our Vice President from April 2000 to October 2000. From January 1990 to June 1995, Mr. Vinson served as Vice President and since June 1995 he has served as President of Vinson Operating Company, an oil and gas well operator. Mr. Vinson

has more than 22 years of experience in the energy services industry.

SCOTT W. SPARKMAN has been one of our directors since 1998, has served as Executive Vice-President of NGE since July 2001, has served as a director since December 1998 and as Secretary and Treasurer of NGE since March 1999 and has served as the Secretary of Great Lakes Compression since February 2001. Mr. Sparkman served as the President of NGE from December 1998 to July 2001. From May 1997 to July 1998, Mr. Sparkman served as Project Manager and Comptroller for Business Development Strategies, Inc., a designer of internet websites. Mr. Sparkman pursued personal business interests from May 1996 to May 1997. From February 1991 to May 1996, Mr. Sparkman served as Vice President and Director, later as President and Director, of Diamond S Safety Services, Inc., a seller and servicer of hydrogen sulfide monitoring equipment. Mr. Sparkman filed for personal bankruptcy in 1998 as a result of personal debt created when there was a decline in the need for the oilfield services that were provided by a company that was owned by Mr. Sparkman. He received a BBA degree from Texas A&M University.

CHARLES G. CURTIS has been one of our directors since April 2001. Since 1992, Mr. Curtis has been the President and Chief Executive Officer of Curtis One, Inc. d/b/a/ Roll Stair, 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 B.S. degree from the United States Naval Academy and a MSAE degree from the University of Southern California.

JAMES T. GRIGSBY has served as one of our directors since 1999 and as one of the directors of Great Lakes Compression since February 2001. Since 1996, Mr. Grigsby has been a director of and a consultant to Blue River Paint Co., a development stage environmental friendly coatings technology company. From 1996 to 1997, Mr. Grigsby was a consultant to Outlook Window Partnership, a regional wood window manufacturer. From 1989 to 1996, Mr. Grigsby was President and Chief Executive Officer of Seal Right Windows, Inc. and Chief Executive Officer of Oldach Window Corp., manufacturers of wood, wood-clad and vinyl windows and doors. Mr. Grigsby received a BS degree from the University of Michigan and an MBA degree from Stanford University.

ALAN P. KURUS has served as our Vice President - Sales and Marketing since March 2001 and one of our employees since October 2000. From 1997 to 2000, Mr. Kurus was Vice President - Sales and Marketing of CompAir Americas, a manufacturer of compressors. From 1993 to 1997, Mr. Kurus was the Director of Sales for Le ROI International, a manufacturer of compressors.

EARL R. WAIT has served as our Chief Financial Officer since May 2000 and our Treasurer since 1998. Mr. Wait was our Chief Accounting Officer from 1998 to May 2000. Mr. Wait has been the Chief Financial Officer and Secretary/Treasurer of Flare King and then Rotary since April 1993, the Assistant Secretary/Treasurer for Hi-Tech since June 1996, the Controller and Assistant Secretary/Treasurer for Hi-Tech from 1994 to 1999, a director of NGE since July 1999 and the Chief Accounting Officer and Treasurer of Great Lakes Compression since February 2001. Mr. Wait is a certified public accountant with an MBA in management and has more than 25 years of experience in the energy industry.

The following sets forth biographical information for at least the past five years for two of our employees whom we consider to be key employees.

WALLACE C. SPARKMAN, age 72, is one of our founders and has been the President of NGE since July 2001, a director of NGE since February 1996, the President of Rotary (and its predecessor, Flare King) from April 1993 to April 1997. Mr. Sparkman served as our President from May 2000 to July 2001 and as the President of Great Lakes Compression from February 2001 to July 2001. Mr. Sparkman was Vice President of NGE from February 1996 to November 1999. Since December 1998, Mr. Sparkman has acted as a consultant to our Board of Directors. From 1985 to 1998, Mr. Sparkman acted as a management consultant to various entities and acted as a principal in forming several privately-owned companies. Mr. Sparkman was a co-founder of Sparkman Energy Corporation, a natural gas gathering and transmission company, in 1979 and served as its Chairman of the Board, President and Chief Executive Officer until 1985, when ownership control changed. From 1968 to 1979, Mr. Sparkman held various executive positions and served as a director

of Tejas Gas Corporation, a natural gas gathering and transmission company. At the time of his resignation from Tejas Gas Corporation in 1979, Mr. Sparkman was President and Chief Executive Officer. Mr. Sparkman has more than 34 years of experience in the energy service industry.

RONALD D. BINGHAM, age 57, has served as the President of Great Lakes Compression since 2001. From March 2001 to July 2001, Mr. Bingham was the General Manager of Great Lakes Compression. Prior thereto, Mr. Bingham was the District Manager for Waukesha Pearce Industries, Inc., a distributor of Waukesha natural gas engines. Mr. Bingham is a member of the Michigan Oil and Gas Association and received a bachelors degree in Graphic Arts from Sam Houston State University.

All of the officers and key employees devote substantially all of their working time to our business.

EXECUTIVE COMPENSATION

The following table sets forth information regarding the compensation paid during the years ended December 31, 2001, 2000 and 1999 by us to Wayne L. Vinson and Earl R. Wait, our only executive officers whose combined salary and bonuses exceeded $100,000 during the year ended December 31, 2001, and to Wallace C. Sparkman, who was our chief executive officer until July 25, 2001.

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS
NAME PRINCIPAL POSITION	YEAR	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS
Wayne L. Vinson	2001	$ 102,692	$ 25,583	-0- (1)
Executive Vice President until 7/25/01	2000	74,423	25,604	-0-
President since 7/25/01	1999	60,000	47,168	-0-
Earl R. Wait	2001	85,385	23,164	-0-
Chief Financial Officer	2000	80,088	7,416	-0-
	1999	60,000	21,616	-0-
Wallace C. Sparkman	2001	98,583(2)	-0-	21,467(3)
President until 7/25/01	2000	60,750(2)	-0-	-0-
President of NGE since 7/25/01	1999	21,770(2)	-0-	-0-

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(1) CAV-RDV, Ltd., a Texas limited partnership for the benefit of the children of Wayne L. Vinson, was issued a five year warrant to purchase 15,756 shares of our common stock at $2.50 per share in consideration for CAV-RDV, Ltd. guaranteeing a portion of our debt. The children are eighteen years old or older and Mr. Vinson is not a partner in CAV-RDV, Ltd. and disclaims beneficial ownership of the warrants.

(2) This amount was paid as a management or consulting fee to a corporation in which Mr. Sparkman is the sole shareholder.

(3) Wallace C. Sparkman subsequently transferred his warrants for 21,467 shares to Diamond S. DGT, a trust of which Scott W. Sparkman is the trustee and a beneficiary. Wallace C. Sparkman has represented to us that he has no beneficial interest in Diamond S. DGT.

We have established a bonus program for our officers. At the end of each of our fiscal years, our Board of Directors reviews our operating history and determines whether or not any bonuses should be paid to our officers. If so, the Board of Directors determines what amount should be allocated to each of two bonus pools. The first bonus pool is payable directly to officers recommended by the Compensation Committee to the Board of Directors based upon the officers' percentages of annual salaries. The second bonus pool is paid to officers based upon an evaluation process whereby the officers evaluate each other. The Board of Directors may discontinue the bonus program at any time.

No options or warrants were granted by us to Wayne L. Vinson or Earl R. Wait during our fiscal year ended December 31, 2001. The following table provides information with respect to warrants granted during our fiscal year ended December 31, 2001, to Wallace C. Sparkman.

OPTION AND WARRANT GRANTS IN LAST FISCAL YEAR

Name	Number of Shares Underlying Warrants Granted	Percent of Total Options and Warrants Granted to Employees In Fiscal Year	Exercise Price	Expiration Date	Grant Date Value	Prospectus Date Value
Wallace C. Sparkman	21,467	100%	$2.50	12/31/06	$7,309	$80,730

We utilize the Black-Scholes option pricing model to calculate the grant date and prospectus date fair value of each individual option grant. Assumed prices of $2.00 per share and $5.75 per share were used for the grant date and prospectus date fair values, respectively. The following additional assumptions were utilized in calculating the values: expected average annual volatility of 17.8%; average annual risk-free interest rate of 5.0%; and expected terms of five years.

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

			Fiscal Year End Option Values	
Name	Shares Acquired On Exercise	Value Received	Number of Securities Underlying Unexercised Warrants at Fiscal Year End Exercisable/Unexercisable	Value of Unexercised In-the-Money Warrants at Fiscal Year End Exercisable/Unexercisable
Wayne L. Vinson	0	0	0/0	0/0
Earl R. Wait	0	0	0/0	0/0
Wallace C. Sparkman	0	0	21,467/0	$69,767/0

The fiscal year end option value is based on an assumed initial public offering price of $5.75 per share of common stock less the exercise price of the warrant.

COMPENSATION OF DIRECTORS

Our directors who are not employees are paid $1,000 per quarter and at December 31 of each year will be issued a five year option to purchase 2,500 shares of our common stock at the then market value. We also reimburse our directors for accountable expenses incurred on our behalf.

EMPLOYMENT AGREEMENTS

We have entered into an employment agreement with Wayne L. Vinson that was in effect until December 31, 2001, and now continues indefinitely unless terminated on 90 days written notice by either Mr. Vinson or us. We have agreed to pay Mr. Vinson an annual minimum compensation of $120,000 and an annual bonus to be determined at the discretion of the directors.

We have entered into an employment agreement with Earl R. Wait that is in effect until September 30, 2002. We have agreed to pay Mr. Wait an annual minimum compensation of $90,000 and an annual bonus to be determined at the discretion of the directors.

1998 STOCK OPTION PLAN

We have adopted the 1998 Stock Option Plan which provides for the issuance of options to purchase up to 150,000 shares of our common stock. The purpose of the plan is to attract and retain the best available personnel for positions of substantial responsibility and to provide additional incentive to employees and consultants and to promote the success of our business. The plan is administered by the Board of Directors or a compensation committee consisting of two or more non-employee directors, if appointed. At its discretion, the administrator of the plan may determine the persons to whom options may be granted and the terms upon which such options will be granted. In addition, the administrator of the plan may interpret the plan and may adopt, amend and rescind rules and regulations for its administration. Options to purchase 12,000 shares of our common stock at an exercise price of $2.00 per share and options to purchase 42,000 shares of our common stock at an exercise price of $3.25 per share have been granted under the plan and are outstanding.

LIMITATIONS ON DIRECTORS' AND OFFICERS' LIABILITY

Our Articles of Incorporation provide our officers and directors 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 us and our shareholders.

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.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

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.

PRINCIPAL SHAREHOLDERS

The following table sets forth, as of the date hereof, the beneficial ownership of our common stock: (i) by each of our directors and executive officers and by Wallace C. Sparkman; (ii) by all of our executive officers and directors as a group; and (iii) by all persons known by us to beneficially own more than five percent of our common stock.

NAME AND ADDRESS	SHARES OF COMMON STOCK BENEFICIALLY OWNED	PERCENT BENEFICIALLY OWNED BEFORE OFFERING	PERCENT BENEFICIALLY OWNED AFTER OFFERING
Wallace O. and Naudain Sellers P.O. Box 106, 6539 Upper York Road Solebury, PA 18963-0106	685,659(1)	20.2%	13.6%
Wayne L. Vinson 4404 Lennox Drive Midland, TX 79707	0(2)	0.0%	0.0%
Scott W. Sparkman 1604 Ventura Avenue Midland, TX 79705	516,467(3)	15.3%	10.3%
Charles G. Curtis 1 Penrose Lane Colorado Springs, CO 80906	58,000(4)	1.7%	1.1%
James T. Grigsby 3345 Grimsby Lane Lincoln, NE 68502	60,000	1.8%	1.2%
Alan P. Kurus 2000 Centerview Midland, TX 79706	31,704(5)	1.0%	0.6%
Earl R. Wait 109 Seco Portland, TX 78374	60,000(6)	1.8%	1.2%
Wallace C. Sparkman 4906 Oakwood Court Midland, TX 79707	165,691(7)	4.9%	3.3%
All directors			

and
executive
officers as
a group
1,411,830
40.3% 27.4%
(seven
persons)
CAV-RDV,
Ltd.
491,324(2)
14.6% 9.8%
1541
Shannon
Drive
Lewisville,
TX 75077
RWG
Investments
LLC
394,000(8)
11.3% 7.6%
5980
Wildwood
Drive Rapid
City, SD
57902
Richard L.
Yadon
294,183(9)
8.7% 5.9%
P.O. Box
8715
Midland, TX
79708-8715

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(1) Includes 300,000 shares of common stock and warrants to purchase 21,936 shares of common stock and 9,032 shares of common stock at $ 2.50 per share and at $3.25 per share, respectively, owned by Wallace Sellers and 354,691 shares of common stock owned by Naudain Sellers. Wallace and Naudain Sellers are husband and wife.

(2) CAV-RDV, Ltd., a Texas limited partnership for the benefit of the children of Wayne L. Vinson, owns 470,250 shares of common stock and warrants to purchase 15,756 shares of common stock at $2.50 per share and 2,122 shares of common stock at $3.25 per share, respectively. Both children are 18 years old or older and Mr. Vinson is not a partner in CAV-RDV, Ltd. Mr. Vinson disclaims beneficial ownership of any of the shares of common stock.

(3) Includes 20,000 shares of common stock owned by Scott W. Sparkman and 475,000 shares of common stock and warrants to purchase 21,467 shares of common stock at $2.50 per share owned by Diamond S DGT, a trust for which Mr. Sparkman is a trustee and beneficiary.

(4) Represents warrants to purchase 40,000 shares of common stock at $3.25 per share and 18,000 shares of common stock which may be obtained upon conversion of shares of our 10% Convertible Series A Preferred Stock.

(5) Represents warrants to purchase 31,704 shares of common stock at $3.25 per share but does not include options to purchase 9,000 shares of common stock at $3.25 per share that do not begin to vest until April 2003.

(6) Does not include options to purchase 15,000 shares of common stock at $3.25 per share that do not begin to vest until April 2003.

(7) Includes 105,691 shares owned by Diamente Investments, LLP, a Texas limited partnership of which Mr. Sparkman is a general and limited partner.

(8) Includes an option to purchase 100,000 shares of common stock at $2.00 per share, warrants to purchase 32,000 shares of common stock at $3.25 per share and 12,000 shares of common stock which may be obtained upon conversion of shares of our 10% Convertible Series A Preferred Stock.

(9) Includes warrants to purchase 14,683 shares of common stock at $2.50 per share.

CERTAIN TRANSACTIONS

In March 2001, we issued five year warrants to purchase shares of our common stock at $2.50 per share to the following persons for guaranteeing the amount of our debt indicated:

NAME	NUMBER OF SHARES UNDERLYING WARRANTS	AMOUNT OF DEBT GUARANTEED
Wallace O. Sellers	21,936	$548,399
Wallace C. Sparkman(1)	21,467	536,671
CAV-RDV, Ltd.(2)	15,756	393,902
Richard L. Yadon	9,365	234,121

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(1) Wallace C. Sparkman subsequently transferred his warrants for 21,467 shares to Diamond S DGT, a trust of which Scott W. Sparkman is the trustee and a beneficiary. Wallace C. Sparkman has represented to us that he has no beneficial interest in Diamond S DGT.

(2) CAV-RDV, Ltd., is a Texas limited partnership for the benefit of the children of Wayne L. Vinson. Both children are eighteen years old or older and Mr. Vinson is not a partner in CAV-RDV, Ltd. Mr. Vinson disclaims beneficial ownership of the warrants.

In April 2002, we issued five year warrants to purchase shares of our common stock at $3.25 per share to the following persons for guaranteeing the additional amount of our debt indicated:

NAME	NUMBER OF SHARES UNDERLYING WARRANTS	AMOUNT OF ADDITIONAL DEBT GUARANTEED
Wallace O. Sellers	9,032	$ 451,601
CAV-RDV, Ltd.(1)	2,122	106,098
Richard L. Yadon	5,318	265,879

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(1) CAV-RDV, Ltd., is a Texas limited partnership for the benefit of the children of Wayne L. Vinson. Both children are eighteen years old or older and Mr. Vinson is not a partner in CAV-RDV, Ltd. Mr. Vinson disclaims beneficial ownership of the warrants.

Wayne L. Vinson, Earl R. Wait and Wallace C. Sparkman have also guaranteed additional debt for us without consideration.

In October, 1999, RWG Investments, LLC was granted a five year option to purchase 100,000 shares of our common stock at $2.00 per share in consideration of one of its members serving as an advisor to us.

Hunter Wise Financial Group LLC served as our investment banker and advisor in connection with our acquisition of the compression related assets of Dominion Michigan for which we paid Hunter Wise a total fee of $440,000. James T. Grigsby, one of our directors, has a 1% interest in Hunter Wise.

Charles G. Curtis, one of our directors, Alan P. Kurus, one of our officers, and RWG Investments, LLC, a beneficial owner of more than 5% of our outstanding stock, purchased our notes and five year warrants to purchase common stock in a private offering that commenced in October 2000 and concluded in May 2001. Mr. Curtis purchased $100,000 of the notes and warrants, Mr. Kurus purchased approximately $79,000 of the notes and warrants and RWG Investments, LLC purchased $80,000 of the notes and warrants. The notes and warrants purchased by Mr. Curtis, Mr. Kurus and RWG Investments, LLC were on the same terms and conditions as sales to non-affiliated purchasers in the private offering.

Charles G. Curtis, one of our directors, and RWG Investments, LLC, a beneficial owner of more than 5% of our outstanding stock, purchased 18,000 shares and 12,000 shares, respectively, or $58,500 and $39,000, respectively, of our 10% Convertible Series A Preferred Stock in a private offering that commenced in July 2001. The shares purchased by Mr. Curtis and RWG Investments, LLC were on the same terms and conditions as sales to non-affiliated purchasers in the private offering.

DESCRIPTION OF SECURITIES

COMMON STOCK

We are authorized to issue up to 30,000,000 shares of our common stock, $.01 par value. There are 3,357,632 shares of our common stock issued and outstanding as of the date of this prospectus. All shares of our common stock have equal voting rights and, when validly issued and outstanding, have one vote per share in all matters to be voted upon by shareholders. The shares of common stock have no preemptive, subscription, conversion or redemption rights and may be issued only as fully paid and non-assessable shares. Cumulative voting in the election of directors is not allowed, which means that the holders of a majority of the outstanding shares represented at any meeting at which a quorum is present will be able to elect all of the directors if they choose to do so and, in such event, the holders of the remaining shares will not be able to elect any directors. On liquidation, each common shareholder is entitled to receive a pro rata share of the assets available for distribution to holders of common stock.

We have no stock option plan or similar plan which may result in the issuance of stock options, stock purchase warrants, or stock bonuses other than our 1998 Stock Option Plan pursuant to which an aggregate of 150,000 shares of common stock have been reserved for issuance. Options to purchase 12,000 shares of common stock with an average exercise price of $2.00 per share and options to purchase 42,000 shares of our common stock at an exercise price of $3.25 per share have been granted and are outstanding under the 1998 Stock Option Plan.

WARRANTS

Each warrant will entitle the holder to purchase one share of common stock at an exercise price of $____ for a period of four years from the date hereof subject to our redemption rights described below. The warrants will be issued pursuant to the terms of a warrant agreement between us and the warrant agent, Computershare Investor Services, Inc. We have authorized and reserved for issuance the shares of common stock issuable on exercise of the warrants. The warrants are exercisable to purchase a total of 1,650,000 shares of our common stock unless the underwriters' over-allotment option relating to the warrants is exercised, in which case the warrants are exercisable to purchase a total of 1,897,500 shares of common stock.

The warrant exercise price and the number of shares of common stock purchasable upon exercise of the warrants are subject to adjustment in the event of, among other events, a stock dividend on, or a subdivision, recapitalization or reorganization of, the common stock, or the merger or consolidation of us with or into another corporation or business entity.

Commencing one year from the date of this prospectus and until the expiration of the warrants, we may redeem all outstanding warrants, in whole but not in part, upon not less than 30 days' notice, at a price of $0.25 per warrant, provided that the closing price of our common stock equals or exceeds 175% of the warrant exercise price ($____ per share) for 20 consecutive trading days. The redemption notice must be provided not more than five business days after conclusion of the 20 consecutive trading days in which the closing price of the common stock equals or exceeds 175% of the warrant exercise price per share. In the event we exercise our right to redeem the warrants, the warrants will be exercisable until the close of business on the date fixed for redemption in such notice. If any warrant called for redemption is not exercised by such time, it will cease to be exercisable and the holder thereof will be entitled only to the redemption price.

We must have on file a current registration statement with the SEC pertaining to the common stock underlying the warrants in order for a holder to exercise the warrants or in order for the warrants to be redeemed by us. The shares of common stock underlying the warrants must also be registered or qualified for sale under the securities laws of the states in which the warrant holders reside. We intend to use our best efforts to keep the registration statement current, but there can be no assurance that such registration statement (or any other registration statement filed by us covering shares of common stock underlying the warrants) can

be kept current. In the event the registration statement covering the underlying common stock is not kept current, or if the common stock underlying the warrants is not registered or qualified for sale in the state in which a warrant holder resides, the warrants may be deprived of any value.

We are not required to issue any fractional shares of common stock upon the exercise of warrants or upon the occurrence of adjustments pursuant to anti-dilution provisions. We will pay to holders of fractional shares an amount equal to the cash value of such fractional shares based upon the then-current market price of a share of common stock.

The warrants may be exercised upon surrender of the certificate representing such warrants on or prior to the expiration date (or earlier redemption date) of such warrants at the offices of the warrant agent with the form of "Election to Purchase" on the reverse side of the warrant certificate completed and executed as indicated, accompanied by payment of the full exercise price by check payable to the order of us for the number of warrants being exercised. Shares of common stock issued upon exercise of warrants for which payment has been received in accordance with the terms of the warrants will be fully paid and nonassessable.

The warrants do not confer on the warrantholder any voting or other rights of our shareholders. Upon notice to the warrantholders, we have the right to reduce the exercise price or extend the expiration date of the warrants. Although this right is intended to benefit warrantholders, to the extent we exercise this right when the warrants would otherwise be exercisable at a price higher than the prevailing market price of the common stock, the likelihood of exercise, and the resultant increase in the number of shares outstanding, may impede or make more costly a change in our control.

PREFERRED STOCK

We are authorized to issue up to a total of 5,000,000 shares of preferred stock, $.01 par value. The shares of preferred stock may be issued in one or more series from time to time with such designations, rights, preferences and limitations as our Board of Directors may determine without the approval of our shareholders. The rights, preferences and limitations of separate series of preferred stock may differ with respect to such matters as may be determined by our Board of Directors, including without limitation, the rate of dividends, method or nature or prepayment of dividends, terms of redemption, amounts payable on liquidation, sinking fund provisions, conversion rights and voting rights. The ability of our Board of Directors to issue preferred stock could also be used by it as a means for resisting a change in our control and can therefore be considered an "anti-takeover" device. We currently have no plans to issue any additional shares of preferred stock.

We designated 1,177,000, shares of our preferred stock as 10% Convertible Series A Preferred Stock. In 2001 and 2002, 381,654 of these shares were sold in a private offering. We plan to reduce the number of designated shares of Preferred Stock to the number of shares of Preferred Stock actually sold in the offering and underlying the warrants that were issued to the placement agent. The Preferred Stock has a cumulative annual dividend rate of 10% in cash. The annual dividend rate is payable 30 days after the end of each quarter beginning with the quarter ending September 30, 2001, when and if declared by our Board of Directors. Each share of Preferred Stock will be entitled to one vote per share with the holders of our outstanding common stock on any matter voted on at a meeting of our shareholders and to vote as a class on any matter required to be voted on by classes under Colorado law. The Preferred Stock initially is convertible into common stock on a one for one basis. The Conversion Price will be adjusted if at any time we complete an offering of our common stock at a price equivalent to less than 150% of the then Conversion Price of the Preferred Stock. The Conversion Price will also be adjusted if any investment is made in us at a price equivalent to less than the then Conversion Price of the Preferred Stock. The Conversion Price may also be adjusted for stock splits, stock dividends, certain reorganizations and certain reclassifications. The Preferred Stock will automatically convert into our common stock at any time after six months from the date hereof, if our common stock trades for 20 consecutive trading days after the six-month period at a price equivalent to 200% of the then Conversion Price (initially 200% is $6.50 per share).

The Preferred Stock has a per share liquidation preference of $3.25 plus accrued and unpaid dividends over our common stock.

SERIES A 10% SUBORDINATED NOTES DUE DECEMBER 31, 2006 AND OUTSTANDING OPTIONS AND WARRANTS

At the present time, we have outstanding $1,539,260 of Series A 10% Subordinated Notes due December 31, 2006. NGE, one of our subsidiaries, is the primary obligor on the notes and we are the guarantor. Interest only on the notes is payable annually on December 31. In addition, in conjunction with the issuance of the notes, we issued five year warrants to purchase 677,274 shares of common stock at $3.25 per share. In addition to those warrants, we have outstanding options to purchase 112,000 shares of our common stock at $2.00 per share, outstanding warrants to purchase 68,524 shares of our common stock at $2.50 per share and outstanding warrants to purchase 38,165 shares of our 10% Series A Preferred Stock at $3.25 per share.

ANTI-TAKEOVER PROVISIONS

Provisions of our Articles of Incorporation and bylaws could discourage acquisition bids and cause our common stock and warrants to trade at discounts to where they otherwise would trade.

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

- directors will be elected for three-year terms, with approximately one-third of the board of directors standing for election each year;

- the unanimous vote of the board of directors or the affirmative vote of the holders of not less than 80% of the votes entitled to be cast by the holders of all shares entitled to vote in the election of directors is required to change the size of the board of directors; and

- directors may only be removed for cause by holders of not less than 80% of the votes entitled to be cast on the matter.

Our board of directors has the authority to issue up to five million shares of preferred stock. The board of directors can fix the terms of the preferred stock without any action on the part of our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction or could be used to put in place a poison pill. This may adversely affect the market price and interfere with the voting and other rights of our common stock.

TRANSFER AGENT, WARRANT AGENT AND REGISTRAR

We have retained Computershare Investor Services, Inc., 350 Indiana Street, Suite 800, Golden, Colorado 80401, to serve as the transfer agent and registrar for our common stock and as the warrant agent for the warrants.

SHARES ELIGIBLE FOR FUTURE SALE

On completion of this offering, we will have 5,007,632 shares of common stock outstanding. If the underwriters' over-allotment option is exercised in full, 5,255,132 shares of common stock will be outstanding. All of the shares of common stock sold in this offering and any shares sold by us upon exercise of the underwriters' over-allotment option will be freely tradeable without restriction or further registration under the Securities Act, except that any shares purchased by our "affiliates," as the term is defined in Rule 144, generally only may be sold in compliance with the limitations of Rule 144 described below.

Of the 5,007,632 shares of common stock outstanding after this offering, 3,017,691 shares will be freely tradable without restriction in the public market, and 1,989,941 shares may be sold publicly only if registered under the 1933 Act or sold in accordance with an exemption from the registration requirements of the 1933 Act, such as Rule 144

As of the date of this prospectus we had 36 holders of our common stock. Prior to this offering, there has been no public market for our common stock. We are unable to estimate the number of shares that may be sold in the future by our existing shareholders or the effect, if any, that sales of shares by such shareholders, or the availability of the shares for sale, will have on the market price of the common stock prevailing from time to time. Sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices.

For purposes of Rule 144, an "affiliate" of us is a person that, directly or indirectly through one or more intermediaries, controls, or is controlled by or is under common control with, us. In general, under Rule 144, a shareholder including an "affiliate," who has beneficially owned our shares for at least one year is entitled to sell, within any three-month period, a number of "restricted" shares that does not exceed the greater of:

- one percent of the then outstanding shares of our common stock, or approximately 50,422 shares expected to be outstanding immediately after this offering; or

- the average weekly trading volume in our common stock during the four calendar weeks preceding the filing of the notice reporting the sale.

Sales under Rule 144 are subject to manner of sale limitations, notice requirements and the availability of current public information about us. Rule 144 (k) provides that a person who is not deemed our "affiliate" and who has beneficially owned our shares for at least two years is entitled to sell such shares at any time under Rule 144 without regard to the limitations described above. We estimate that approximately 1,367,681 outstanding shares of common stock fall in this category.

As of the date of this prospectus, there were options and warrants outstanding to purchase 916,270 shares of our common stock with a weighted average exercise price of $3.04 and 381,654 shares of 10% Convertible Series A Preferred Stock outstanding that are convertible into 381,654 shares of our common stock. Each holder of our 10% Convertible Series A Preferred Stock has agreed to not sell any of the 10% Convertible Series A Preferred Stock or the common stock into which it is convertible for a period of 180 days after the closing date of this offering without the prior written consent of the representative of the underwriters.

There are 150,000 shares that have been authorized to be issued pursuant to our 1998 Stock Option Plan. Following this offering, we may file a registration statement on Form S-8 covering the 150,000 shares of common stock issuable under our 1998 Stock Option Plan, thus permitting the resale of these shares in the public market without restriction under the Securities Act other than restrictions applicable to affiliates.

Our executive officers, directors, holders of five percent or more of our common stock and Wallace C. Sparkman have agreed, pursuant to lock-up agreements relating to the transfer of shares of our common stock, that they will not sell, transfer, hypothecate or convey any of our common stock or derivative securities by registration or otherwise for a period of 12 months from the date of this prospectus without the prior written consent of the representative of the underwriters. The representative of the underwriters has informed us that it has no current intentions of releasing any shares subject to the aforementioned lock-up agreements. Any determination by the representative of the underwriters to release any shares subject to the lock-up agreements would be based on a number of factors at the time of determination, including the market price and trading volumes of the common stock, the liquidity of the trading market for the common stock, general market conditions, the number of shares proposed to be sold, and the timing, purpose and terms of the proposed sale. There are no exceptions to the lock-up agreements except that individuals subject to the lock-up agreements may dispose of shares as bona fide gifts to persons who also enter into lock-up agreements that terminate 12 months after the date of this prospectus.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, for which Neidiger, Tucker, Bruner, Inc. is acting as the underwriters' representative, have agreed to purchase from us the number of shares and warrants set forth opposite their names, and will purchase the shares and warrants at the price to public less the underwriting discount set forth on the cover page of this prospectus:

UNDERWRITER	NUMBER OF SHARES	NUMBER OF WARRANTS
Neidiger, Tucker, Bruner, Inc.		
Total	1,650,000	1,650,000

The underwriting agreement provides that the underwriters' obligations are subject to conditions precedent and that the underwriters are committed to purchase all shares and warrants offered hereby (other than those covered by the over-allotment option described below) if the underwriters purchase any shares and warrants.

The representative has advised us that the underwriters propose to offer the shares and warrants offered hereby directly to the public at the price to public set forth on the cover page of this prospectus, and that they may allow to certain dealers that are members of the National Association of Securities Dealers, Inc., concessions not in excess of $_____. After the initial public distribution, the prices of the shares of common stock and warrants may change as a result of market conditions. No change in the terms will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus. The representative has further advised us that the underwriters do not intend to confirm sales to any accounts over which any of them exercise discretionary authority.

We have agreed to pay the representative a nonaccountable expense allowance of three percent of the aggregate public offering price of the shares and warrants offered, including the price of shares of common stock and warrants sold on exercise of the over-allotment option. We have paid $40,000 of the nonaccountable expense allowance to the representative. We have also agreed to pay all expenses in connection with qualifying the shares and warrants offered hereby for sale under the laws of such states as the representative may designate.

We have granted the underwriters options, exercisable for 60 days after the date of this prospectus, to purchase up to 247,500 additional shares of common stock and to purchase up to 247,500 additional warrants at the same prices as the initial shares of common stock and its warrants offered. The underwriters may purchase the shares of common stock and warrants solely to cover over-allotments, if any, in connection with the sale of shares of shares and warrants offered hereby. If the over-allotment options are exercised in full, the total public offering price, underwriting discounts and gross proceeds to us will be $11,385,000, $1,138,500 and $10,246,500, respectively. The expenses of this offering are estimated to be $570,000.

The underwriters may engage in over-allotments, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934. Over-allotment involves syndicate sales in excess of the offering size, which create a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the securities originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Such stabilizing transactions, syndicate covering transactions and penalty bids may cause the

price of the common stock and warrants to be higher than they would otherwise be in the absence of such transactions.

Neither us nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the prices of the common stock or warrants. In addition, neither us nor any of the underwriters makes any representation that the underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Our officers, directors and beneficial holders of 5% or more of our outstanding shares of common stock have agreed, pursuant to lock-up agreements relating to the transfer of shares of our common stock, that they will not sell, transfer, hypothecate or convey any of our shares of common stock by registration or otherwise for a period of 12 months from the date of this prospectus without the prior written consent of the representative of the underwriters.

We will sell to the representative on completion of the offering, for a total purchase price of $100, representative's options entitling the representative or its assigns to purchase 165,000 shares of common stock and 165,000 warrants. The representative's options will be exercisable commencing one year from the date of this prospectus and will expire five years from the date of this prospectus. The representative's options will contain certain anti-dilution provisions and provide for the cashless exercise of the representative's options utilizing our securities. The exercise price of the representative's options to purchase common stock and warrants is 120% of the public offering price or $______ and $____ , respectively. The representative's warrants are exercisable at $____ per share.

We will set aside and at all times have available a sufficient number of shares of common stock and warrants to be issued upon exercise of the representative's options and warrants. The representative's options and warrants and underlying securities will be restricted from sale, transfer, assignment or hypothecation for a period of one year after the date of this prospectus, except to officers of the representative, co-underwriters, selling group members and their officers or partners. Thereafter, the representative's options and warrants and underlying securities will be transferable provided such transfer is in accordance with the provisions of the Securities Act. Subject to certain limitations and exclusions, we have agreed, at the request of the representative, to register for sale the common stock and warrants issuable upon exercise of the representative's options and the underlying shares of common stock issuable upon exercise of the warrants included in the representative's options.

For a period of three years after the date hereof, the representative has the right to designate an advisor to our board of directors. Such advisor will be reimbursed for his or her expenses for attending meetings of our board of directors and will receive compensation excluding any grants of options, equal to that received by the highest compensated outside director but will have no voting rights.

At the closing of the offering, we will enter into a consulting agreement retaining the representative as a financial consultant at $3,000 per month for a 24 month period.

For a period of three years from the date hereof, the representative shall have a right of first refusal to act as our investment banker with respect to any future public offerings and/or private offerings involving our securities or any of the securities of our subsidiaries or mergers, acquisitions, and/or business combinations involving us or any of our subsidiaries. The right shall continue in effect during the entire three-year period despite the exercise of the right or the refusal to exercise the right during the period.

In the fourth quarter of 2001 and first quarter of 2002, we sold 381,654 shares of our 10% Convertible Series A Preferred Stock at $3.25 per share for gross proceeds of approximately $1,240,000. We paid the representative a commission of approximately $124,000 and a nonaccountable expense allowance of approximately $37,000 and issued the representative warrants to purchase 38,165 shares of our 10% Convertible Series A Preferred Stock at $3.25 per share.

Prior to this offering, there has not been a public market for our securities. The public offering prices of the common stock and warrants have been determined by arm's-length negotiation between us and the representative. There is no direct relation between the offering prices and our assets, book value or net worth. Among the factors considered by us and the representative in pricing the common stock and warrants were the results of operations, the current financial condition and our future prospects, the experience of management, the amount of ownership to be retained by present stockholders, the general condition of the economy and the securities markets and the demand for securities of companies considered comparable to us.

In connection with this offering, we and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933 and if such indemnification is unavailable or insufficient, we and the underwriters have agreed to damage contribution arrangements based upon relative benefits received from this offering and relative fault resulting in such damage.

LEGAL MATTERS

Dorsey & Whitney LLP, will pass upon the validity of the common stock and warrants offered in this prospectus. Jones & Keller, P.C, will pass upon certain legal matters for the representative.

EXPERTS

Our consolidated balance sheet as of December 31, 2001 and the consolidated statements of income and shareholders' equity and cash flows for the two years ended December 31, 2000 and 2001 and the statement of revenue and direct expenses of assets acquired by Great Lakes Compression, Inc. for the year ended December 31, 2000, included in this prospectus have been included herein in reliance on the report of HEIN + ASSOCIATES LLP , independent certified public accountants, given on the authority of that firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

We have filed a registration statement on Form SB-2 under the Securities Act with the SEC in connection with this offering. This prospectus is part of the registration statement and does not contain all of the information contained in the registration statement or any of the exhibits filed with the registration statement. For further information about us, please see the registration statement and the exhibits filed with the registration statement. Summaries in this prospectus of the contents of any agreement or other document filed as an exhibit to this registration statement are not necessarily complete. In each instance, please refer to the copy of the agreement or other document filed as an exhibit to the registration statement.

After we complete this offering, we will be required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read any document we file with the SEC, including the registration statement and the exhibits filed with the registration statement, without charge, at the following SEC public reference rooms:

450 Fifth Street, N.W.
Judiciary Plaza
Room 1024
Washington, D.C. 20549

500 West Madison Street
Suite 1400
Chicago, Illinois 60661

75 Park Place
Room 1400
New York, New York 10007

You may copy all or any part of our SEC filings from these offices upon payment of the fees charged by the SEC. You may obtain information on the operation of the public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330.

Our SEC filings, including the registration statement and the exhibits filed with the registration statement, are available from the SEC's website at http://www.sec.gov, which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Natural Gas Services Group, Inc.

We have audited the accompanying consolidated balance sheet of Natural Gas Services Group, Inc. and subsidiaries (the "Company") as of December 31, 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001, and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000 in conformity with accounting principles generally accepted in the United States of America.

HEIN + ASSOCIATES LLP

Dallas, Texas
March 14, 2002

NATURAL GAS SERVICES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	MARCH 31, 2002	DECEMBER 31, 2001
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 136,252	$ 506,669
Trade accounts receivable, no allowance for doubtful accounts considered necessary	1,361,301	985,709
Lease receivable, net of unearned interest of $33,565 and $36,620	87,971	84,916
Inventory	1,871,033	1,615,407
Prepaid expenses and other	33,768	55,000
Total current assets	3,490,325	3,247,701
PROPERTY AND EQUIPMENT, net	12,977,359	12,442,368
GOODWILL, net of accumulated amortization of $325,192	2,589,655	2,589,655
PATENTS, net of accumulated amortization of $89,325 and $82,454	162,038	168,910
LEASE RECEIVABLE, net of unearned interest of $25,380 and $32,592	187,334	210,504
INVESTMENT IN JOINT VENTURE	144,283	118,669
OTHER ASSETS	17,309	32,006
Total assets	$ 19,568,303	$ 18,809,813

============ LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT LIABILITIES: Current portion of long-term debt and capital lease $ 7,807,788 $ 916,291 Line of credit 675,000 -- Accounts payable and accrued liabilities 1,067,719 949,308 Deferred income 210,517 183,374 ------------ ------------ Total current liabilities 9,761,024 2,048,973 LONG-TERM DEBT, less current portion 1,928,267 9,048,028 CAPITAL LEASE, less current portion 41,490 44,807 SUBORDINATED NOTES, net of discount of $249,004 and $265,243 1,290,257 1,274,018 DEFERRED TAX LIABILITY 702,000 613,437 COMMITMENTS (Notes 5 and 13) SHAREHOLDERS' EQUITY: Preferred stock, 5,000,000 shares authorized, par value $0.01: 10% Convertible Series A: 1,177,000 shares authorized; 10% cumulative, liquidation preference of $1,240,376 and $1,225,751, respectively; 381,654 and 377,154 shares outstanding, respectively 3,817 3,772 Common stock, 30,000,000 shares authorized, par value $0.01; 3,357,632 shares issued and outstanding

33,576
33,576
Additional
paid-in
capital
4,455,495
4,442,816
Retained
earnings
1,352,377
1,300,386 --
---------- -

Total
shareholders'
equity
5,845,265
5,780,550 --
---------- -

Total
liabilities
and
shareholders'
equity $
19,568,303 $
18,809,813
============
============

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

NATURAL GAS SERVICES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	FOR THE THREE MONTHS ENDED March 31, 2002	MARCH 31, 2001	FOR THE YEARS ENDED DECEMBER 31, 2001	2000
	(Unaudited)	(Unaudited)		
REVENUE:				
Sales, net	$ 1,690,879	$ 1,026,144	$ 5,667,106	$ 2,576,144
Leasing income and interest	999,517	383,848	3,095,001	1,075,509
Total revenue	2,690,396	1,409,992	8,762,107	3,651,653
COSTS OF REVENUE:				
Cost of sales	1,398,300	739,445	4,032,846	1,285,334
Cost of leasing	282,535	90,597	909,299	249,480
Total costs of revenue	1,680,835	830,042	4,942,145	1,534,814
GROSS PROFIT	1,009,561	579,950	3,819,962	2,116,839
OPERATING EXPENSES:				
Selling expenses	124,667	133,347	612,670	286,540
General and administrative	273,541	232,577	1,105,290	951,323
Depreciation and amortization	254,404	105,647	903,166	

355,705 -----
------- -----
------- -----
------- -----
------- Total
operating
expenses
652,612
471,571
2,621,126
1,593,568 ---
--------- ---
--------- ---
--------- ---

INCOME FROM
OPERATIONS
356,949
108,379
1,198,836
523,271 OTHER
INCOME
(EXPENSE):
Interest
expense
(257,360)
(97,774)
(924,382)
(207,129)
Equity in
earnings of
joint venture
83,452 5,607
224,231
17,792 Other
income 1,698
60,378
197,208
30,608 ------
------ ------
------ ------
------ ------
------ Total
other income
(expense)
(172,210)
(31,789)
(502,943)
(158,729) ---
--------- ---
--------- ---
--------- ---

INCOME FROM
CONTINUING
OPERATIONS
BEFORE
PROVISION FOR
INCOME TAXES
184,739
76,590
695,893
364,542
PROVISION FOR
INCOME TAXES:
Current --
26,806 9,100
38,262 ------
------ ------
------ ------
------ ------

Deferred
88,563 --
304,800
108,973 -----
------- -----
------- -----
------- -----
------- Total
income tax
expense
88,563 26,806
313,900
147,235 -----
------- -----
------- -----
------- -----

INCOME BEFORE
DISCONTINUED
OPERATIONS
96,176 49,784
381,993
217,307
DISCONTINUED
OPERATIONS:
Loss from
operations,
including tax

benefit of
$20,000 -- --
-- (252,000)
Gain on sale
of
subsidiary,
no tax effect
-- -- --
943,771 -----
------- -----
------- -----
------- -----
------- Total
discontinued
operations --
-- -- 691,771

NET INCOME
96,176 49,784
381,993
909,078
PREFERRED
DIVIDENDS
44,185 --
10,908 -- ---
--------- ---
--------- ---
--------- ---
--------- NET
INCOME
AVAILABLE TO
COMMON
SHAREHOLDERS
$ 51,991 $
49,784 $
371,085 $
909,078
============
============
============
============
NET INCOME
PER COMMON
SHARE: Basic
$ .02 $ .02 $
0.11 $ 0.27
============
============
============
============
Diluted $ .01
$ .02 $ 0.11
$ 0.27
============
============
============
============
WEIGHTED
AVERAGE
COMMON SHARES
OUTSTANDING:
Basic
3,357,632
3,357,632
3,357,632
3,357,632
Diluted
3,798,176
3,357,632
3,483,987
3,357,632

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

NATURAL GAS SERVICES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE PERIOD FROM JANUARY 1, 2000 THROUGH MARCH 31, 2002

NOTE
PREFERRED
STOCK COMMON
STOCK
RECEIVABLE
ADDITIONAL
TOTAL ------

FROM PAID-IN
RETAINED
SHAREHOLDERS'
SHARES
AMOUNT
SHARES
AMOUNT
SHAREHOLDER
CAPITAL
EARNINGS
EQUITY -----
--- --------
---------- -
------- ----
-------- ---
------- ----
-------- ---

BALANCES,
January 1,
2000 -- $ --
4,050,000 $
40,500 $
(164,558)
$4,801,666 $
20,223 $
4,697,831
Forgiveness
of
receivable
in divesture
of
subsidiary -
- -- -- --
164,558 -- -
- 164,558
Common stock
repurchased
in divesture
of
subsidiary -
- --
(692,368)
(6,924)
(1,377,812)
--
(1,384,736)
Net income -
- -- -- -- -
- -- 909,078
909,078 ----
---- -------
- ----------
-------- ---
--------- --
-------- ---
--------- --

BALANCES,
January 1,
2001 -- --
3,357,632
33,576
3,423,854
929,301
4,386,731
Issuance of
preferred
stock
377,154
3,772 -- --
-- 899,461 -
- 903,233
Warrants
issued in
connection
with
subordinated
notes -- --
-- -- --
96,364 --

96,364
Warrants
issued for
debt
guaranty --
-- -- -- --
23,137 --
23,137
Dividends on
preferred
stock -- --
-- -- -- --
(10,908)
(10,908) Net
income -- --
-- -- --
381,993
381,993 ----
---- -------
- ----------
-------- ---
--------- --
-------- ---
--------- --

BALANCES,
January 1,
2002 377,154
3,772
3,357,632
33,576 --
4,442,816
1,300,386
5,780,550 --
------ -----
--- --------
-- --------

---------- -

Issuance of
preferred
stock
(unaudited)
4,500 45 --
-- -- 12,679
-- 12,724
Dividends on
preferred
stock
(unaudited)
-- -- -- --
-- --
(44,185)
(44,185) Net
income
(unaudited)
-- -- -- --
-- -- 96,176
96,176 -----
--- --------
---------- -
------- ----
-------- ---
------- ----
-------- ---

BALANCES,
March 31,
2002
(unaudited)
381,654 $
3,817
3,357,632 $
33,576 $ --
$4,455,495 $
1,352,377 $
5,845,265
========
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SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

NATURAL GAS SERVICES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE
MONTHS ENDED
FOR THE YEARS
ENDED
DECEMBER 31,

------ ------

March 31,
2002 March
31, 2001 2001
2000 --------
------ ------
-------- ----
-------- ----

(Unaudited)
(Unaudited)
CASH FLOWS
FROM
OPERATING
ACTIVITIES:
Net income $
114,538 $
49,784 $
381,993 $
909,078
Adjustments
to reconcile
net income to
net cash
provided by
(used in)
operating
activities:
Depreciation
and
amortization
254,404
105,647
903,166
355,705
Deferred
taxes -- --
304,800
108,973
Amortization
of debt
issuance
costs 16,239
5,413 64,956
-- Gain on
disposal of
assets --
(36,761)
(117,387)
(957,959)
Warrants
issued for
debt
guarantee --
23,137 23,137
Equity in
earnings of
joint venture
(83,452)
(5,607)
(224,231)
(17,792)
Changes in
current
assets: Trade
and other
receivables
(375,592)
(198,511)
(360,868)
(160,219)
Inventory
(255,626)
(321,573)
(593,403)
(695,908)
Prepaid
expenses and
other 21,233
74,190 25,190
(48,560)
Changes in
current
liabilities:

Accounts payable and accrued liabilities 188,612 316,908 472,779 241,319 Deferred income 27,143 (82,534) (9,826) 133,156 Other 14,694 (18,682) (30,551) (121,228) ------------ ------------ ------------ ------------ Net cash provided by (used in) operating activities (77,807) (88,589) 839,755 (253,435) CASH FLOWS FROM INVESTING ACTIVITIES: Purchase of property and equipment (782,522) (247,115) (2,220,110) (1,909,459) Proceeds from sale of property and equipment -- 113,000 328,500 9,850 Decrease in lease receivable 20,115 17,462 73,711 63,991 (Contributions to) distributions from joint venture 57,839 (11,199) 124,353 (1,000) Cash paid for acquisition -- (1,260,903) (1,393,113) -- ------------ ------------ ------------ ------------ Net cash used in investing activities (704,568) (1,388,755) (3,086,659) (1,836,618) CASH FLOWS FROM FINANCING ACTIVITIES: Net proceeds from lines of credit 675,000 345,000 750,000 700,000 Proceeds from long-term debt -- 68,633 249,761 344,480 Repayments of long-term debt (231,581) (144,387) (592,258) (346,909)

Dividend on preferred stock (44,185) -- (10,908) --
Proceeds from preferred stock, net of offering costs 12,724 -- 903,233 --
Proceeds from note offering, net of offering costs -- 1,088,380 1,310,839 --
------------ ------------ ------------ ------------
Net cash provided by financing activities 411,958 1,357,626 2,610,667 697,571
NET INCREASE (DECREASE) IN CASH (370,417) (119,718) 363,763 (1,392,482)
CASH, beginning of period 506,669 142,906 142,906 1,535,388
------------ ------------ ------------ ------------
CASH, end of period $ 136,252 $ 23,188 $ 506,669 $ 142,906
============ ============ ============ ============
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:
Interest paid $ 257,360 $ 97,774 $ 872,239 $ 207,129
============ ============ ============ ============
Income taxes paid $ -- $ -- $ 2,566 $ --
============ ============ ============ ============
Purchase of property and equipment for note payable $ -- $ -- $ 7,148,949 $ 328,540
============ ============ ============ ============
Common stock repurchased in disposal of subsidiary $ -- $ -- $ -- $ 1,384,736
============ ============ ============ ============

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(the period subsequent to December 31, 2001 is unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

Natural Gas Services Group, Inc. (the "Company" or "NGSG") (a Colorado corporation) was formed on December 18, 1998 for the purposes of combining the operations of certain manufacturing, service and leasing entities providing services to a customer base of oil and gas exploration and production companies operating primarily in Colorado, Kansas, Louisiana, Michigan, New Mexico, Oklahoma, Texas and Wyoming. On March 15, 1999, the Company acquired the following entities:

- Flare King, Inc. ("Flare King") (a Texas corporation) is engaged in the manufacturing and distribution of natural gas flare stacks and ignition systems for use in oilfield, refinery, petrochemical plant, and landfill applications in New Mexico, California and Texas. In July 2000, the name of Flare King was changed to Rotary Gas Systems, Inc. ("RGS, Inc.").

- Rotary Gas Systems, L.C. ("RGS") (a Texas limited liability corporation) was engaged in the packaging and distribution of natural gas compressors primarily for petroleum applications primarily in New Mexico and Texas. In July 2000 RGS was dissolved and its operations are now conducted through RGS, Inc.

- NGE Leasing, Inc. ("NGE") (a Texas corporation) is engaged in leasing irrigation motor units to entities in the agricultural industry and natural gas compressor packages to entities in the petroleum industry. NGE's leasing income is concentrated in New Mexico, California and Texas.

- CNG Engines Co. ("CNG") (a Texas corporation) is engaged principally in the manufacturing and distribution of irrigation motor units, and its sales are concentrated in California and Texas. The Company disposed of CNG on March 31, 2000. See Note 12.

- Gas Engine Service, LLC ("GES") (a California limited liability corporation) is engaged in providing maintenance and repair services for natural gas engines and its revenues are concentrated in California. GES is a wholly-owned subsidiary of CNG.

In March 2001, the Company's newly formed subsidiary, Great Lakes Compression, Inc. (a Colorado corporation) ("GLC"), acquired the assets and certain operations of a business that fabricates, leases and services natural gas compressors to producers of oil and natural gas, primarily in Michigan.

The accompanying financial statements present the consolidated results of the Company and its wholly-owned subsidiaries. Investments in joint ventures in which the Company does not have majority voting control are accounted for by the equity method. All intercompany balances and transactions have been eliminated in consolidation.

Cash Equivalents

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

Inventory

Inventory is valued at the lower of cost or market. The costs of inventories are determined by the first-in, first-out method. Inventories consisted of the following:

	MARCH 31, 2002	DECEMBER 31, 2001
Raw materials	$ 1,467,224	$ 1,340,930
Work in process	403,809	274,477
	$ 1,871,033	$ 1,615,407

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which range from five to thirty years.

Gains and losses resulting from sales and dispositions of property and equipment are included in current operations. Maintenance and repairs are charged to operations as incurred.

Patents

The Company has patents for a flare tip ignition device and flare tip burner pilot held by RGS. The costs of the patents are being amortized on a straight-line basis over nine years, the remaining life of the patents when acquired. Amortization expense for patents of $27,484 and $27,484 was recognized for the years ended December 31, 2001 and 2000, respectively. Amortization expense for each of the next five years is estimated to be $27,484 per year. Amortization expense for patents was $6,871 for each of the three-month periods ended March 31, 2002 and 2001.

Goodwill

Goodwill represents the cost in excess of fair value of the identifiable net assets acquired in various acquisitions and is being amortized on a straight-line basis over 20 years. Amortization expense of $124,425 and $100,404 was recognized for the years ended December 31, 2001 and 2000, respectively, and $25,101 was recognized for the three months ended March 31, 2001. The Company ceased amortization of goodwill effective January 1, 2002, in accordance with FAS 142, which is described under Recently Issued Accounting Pronouncements below. See Note 15.

Long-Lived Assets

The Company's policy is to periodically review the net realizable value of its long-lived assets, including patents and goodwill, through an assessment of the estimated future cash flows related to such assets. In the event that assets are found to be carried at amounts in excess of estimated undiscounted future cash flows, then the assets will be adjusted for impairment to a level commensurate with a discounted cash flow analysis of the underlying assets. Based upon its most recent analysis, the Company believes no impairment of long-lived assets exists at December 31, 2001 and March 31, 2002.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was $56,335 in 2001 and $12,072 in 2000, and was $9,443 and $11,339 for the three months ended March 31, 2002 and 2001, respectively.

Revenue Recognition

Revenue from the sale of equipment and services is recognized upon shipping of equipment and providing services to the customer. Deferred income represents items that have been billed to customers based on contractual agreements, but have not yet been shipped. Rental and lease revenue are recognized over the terms of the respective lease agreements based upon the classification of the lease.

Stock-Based Compensation

The Company applies Statement of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation, which requires recognition of the value of stock options and warrants granted based on an option pricing model. However, as permitted by SFAS 123, the Company continues to account for stock options and warrants granted to directors and employees pursuant to Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. See Note 10.

Description of Leasing Arrangements

The Company's leasing operations principally consist of the leasing of natural gas compressor packages and flare stacks. The Company has one seven-year lease of natural gas irrigation engines to an agricultural entity that is classified as a sales-type lease. The remaining leases are all classified as operating leases. See Note 5.

Income Taxes

The Company files a consolidated tax return for all the entities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Use of Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates include the valuation of assets and goodwill acquired in acquisitions. It is at least reasonably possible these estimates could be revised in the near term and the revisions would be material.

Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("FAS") No. 141, Business Combinations ("FAS 141"), and No. 142, Goodwill and Other Intangible Assets ("FAS 142"). FAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for under the purchase method. For all business combinations for which the date of acquisition is after June 30, 2001, FAS 141 also establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain, rather than deferred and amortized. FAS 142 changes the accounting for goodwill and other intangible assets after an acquisition. The most significant changes made by FAS 142 are: 1) goodwill and intangible assets with indefinite lives will no longer be amortized; 2) goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and 3) the amortization period for intangible assets with finite lives will no longer be limited to forty years. The Company does not believe that the adoption of FAS 141 will have a material effect on its financial position, results of operations, or cash flows. The Company adopted FAS 142 on January 1, 2002, at which time it ceased the amortization of goodwill. The result of the application of the non-amortization provisions of FAS 142 for goodwill resulted in a $25,101 reduction of amortization expense for the three months ended March 31, 2002 as compared to the three months ended March 31, 2001. At March 31, 2002, the Company's goodwill had a carrying value of $2,589,655. Pursuant to FAS 142, the Company will

complete its test for goodwill impairment during the second quarter 2002 and, if impairment is indicated, record such impairment as a cumulative effect of accounting change effective January 1, 2002. The Company is currently evaluating the effect that the impairment review may have on its consolidated results of operation and financial position.

In June 2001, the FASB also approved for issuance Statements of Financial Accounting Standards No. 143, Asset Retirement Obligations ("FAS 143"). FAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including 1) the timing of the liability recognition, 2) initial measurement of the liability, 3) allocation of asset retirement cost to expense, 4) subsequent measurement of the liability and 5) financial statement disclosures. FAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company will adopt the statement effective no later than January 1, 2003, as required. The transition adjustment resulting from the adoption of FAS 143 will be reported as a cumulative effect of a change in accounting principle. The Company does not believe that the adoption of this statement will have a material effect on its financial position, results of operations, or cash flows.

In October 2001, the FASB also approved Statements of Financial Accounting Standards No. 144 ("FAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets. FAS 144 replaces Statements of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The new accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business. FAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. FAS 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of FAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Presently, the Company does not believe the adoption of this statement will have a material effect on its financial position, results of operations, or cash flows.

Unaudited Information

The balance sheet as of March 31, 2002 and the statements of income for the three-month periods ended March 31, 2002 and 2001 were taken from the Company's books and records without audit. However, in the opinion of management, such information includes all adjustments which are necessary to make not misleading the Company's financial position as of March 31, 2002 and the results of operations for the three months ended March 31, 2002 and 2001. The results of operations for the interim periods presented are not necessarily indicative of those expected for the year.

2. ACQUISITION

In March 2001, the Company acquired the assets, primarily compressors, office furniture and fixtures, building and land of Dominion Michigan Production Services, Inc. ("Dominion") for a total purchase price of $8 million, subject to adjustment. $1 million of the purchase price was paid in cash with the remainder financed by the seller (see Note 7). The transaction was accounted for under the purchase method of accounting and the purchase price was allocated to the net assets acquired based on their estimated fair values. The excess of cost over the fair value of net assets acquired totaled approximately $741,000 and was recorded as goodwill as of the acquisition date. The operating results of the acquired business have been included in the Company's financial statements beginning April 1, 2001.

The following unaudited pro forma information has been prepared as if the acquisition of the assets of Dominion had occurred at the beginning of each of the years ended December 31, 2001 and 2000. Such information is not necessarily reflective of the actual results that would have occurred had the acquisition occurred on those dates.

	THREE MONTHS ENDED MARCH 31, 2001	YEAR ENDED DECEMBER 31, 2001	YEAR ENDED DECEMBER 31, 2000
Net sales	$ 2,211,031	$ 9,563,146	$ 7,306,065
Net income	$ 146,260	$ 429,276	$ 897,895
Net income per common share	$ .04	$ 0.13	$ 0.27
Net income per common share, assuming dilution	$ .04	$ 0.12	$ 0.27

In connection with the acquisition, a total fee of $440,000 was paid to the investment banker/advisor. A director of the Company has a 1% interest in the investment banker/advisor.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	MARCH 31, 2002	DECEMBER 31, 2001

Land and building	$ 1,345,740	$ 1,345,740
Leasehold improvements	70,275	70,201
Equipment and furniture	516,173	505,120
Rental equipment	11,814,882	11,043,564
Vehicles	550,974	550,974
	14,298,044	13,515,599
Less accumulated depreciation	(1,320,685)	(1,073,231)
	$ 12,977,359	$ 12,442,368

Depreciation expense for property and equipment of $751,257 and $227,816 was recognized for the years ended December 31, 2001 and 2000, respectively. Depreciation expense for property and equipment of $247,454 and $247,533 was recognized for the three months ended March 31, 2002 and 2001, respectively.

4. INVESTMENT IN JOINT VENTURE

The Company owns a non-controlling 50% interest in a joint venture, Hy-Bon Rotary Compression, LLC ("Hy-Bon"). This interest is accounted for on the equity method, in which the Company recognizes its share of the earnings or loss of the joint venture determined in accordance with the Hy-Bon operating agreement. The Company's total equity method investment in Hy-Bon at December 31, 2001 was $118,669. The Company's equity in the earnings of Hy-Bon was $224,231 and $17,792 in 2001 and 2000, respectively. Summarized financial information of Hy-Bon follows:

	DECEMBER 31, 2001
BALANCE SHEET:	
ASSETS:	
Accounts receivable	$ 178,255
Other current assets	62,842
Equipment, net	100,770
Total assets	$ 341,867
LIABILITIES:	
Accounts payable and accrued expenses	$ 16,582
Notes payable	73,773
Members' capital	251,512
Total liabilities and equity	$ 341,867

	FOR THE YEAR ENDED DECEMBER 31, 2001	2000
STATEMENT OF OPERATIONS:		
Total revenue	$ 644,170	$ 36,392
Total expenses	193,756	15,427
Net income	$ 450,414	$ 20,965

5. LEASING ACTIVITY

The following lists the components of the net investment in the Company's sales-type lease:

	MARCH 31, 2002	DECEMBER 31, 2001
Total minimum lease		

payments receivable	$ 334,250	$ 364,632
Less unearned income	(58,945)	(69,212)
	------------	----------
	$ 275,305	$ 295,420
	=============	==========

Future minimum lease payments are $121,536 per year until the lease expiration in December 2004.

The Company leases natural gas compressor packages to entities in the petroleum industry. These leases are classified as operating leases and generally have original lease terms of one to five years and continue on a month-to-month basis thereafter. Future minimum lease payments for leases not on a month-to-month basis at December 31, 2001 are as follows:

Year Ended December 31,	
2002	$ 1,680,476
2003	799,831
2004	828,085
2005	861,208
Total	$ 4,169,600

6. LINE OF CREDIT

The Company has a line of credit with a financial institution that allows for borrowings up to $750,000, bears interest at the prime rate plus 1% (5.75% at December 31, 2002 and 6.75% at March 31, 2002, respectively) and requires monthly interest payments with principal due at maturity on December 15, 2002. The note is collateralized by substantially all of the assets of the Company and is personally guaranteed by certain shareholders and their affiliated entities. Warrants were issued in 2001 to these shareholders for their guarantees (see Note 10). The line of credit includes certain covenants, the most restrictive of which require the Company to maintain certain working capital and debt to equity ratios and certain minimum net worth. The Company was in compliance with all covenants on the line of credit at December 31, 2001. At December 31, 2001, there was no outstanding balance, and at March 31, 2002, there was $675,000 outstanding on this line of credit.

7. LONG-TERM DEBT

Long-term debt consists of the following:

MARCH 31, DECEMBER 31, 2002 2001 --- ------- ----- ------- Note payable to a bank, interest at bank's prime rate plus 1.5% (6.25% at December 31, 2001), monthly payments of principal and interest of $10,127, until maturity in November 2002, with a final lump-sum payment of $124,614. This note is collateralized by equipment leased to a third party under a sales-type lease and is guaranteed by certain officers and shareholders of the Company. $ 158,105 $ 213,302 Three notes payable to a bank, interest at the prime rate plus 1% - 1.5% (5.75% - 6.25% at December 31, 2001), monthly principal payments of $11,667, $12,500 and $25,000, plus interest, until maturity in

January 2006, November 2006 and December 2004. These notes have the same collateral and personal guarantees as the line of credit (Note 6). 2,146,661 2,294,162

Note payable to an individual, interest at 10%, monthly payments of principal and interest totaling $1,255 until maturity in August 2010. This note is collateralized by a building. 86,034 87,623

Note payable to a bank, interest at 11%, monthly payments of principal and interest totaling $2,614, until maturity in September 2010, collateralized by a building. 219,709 221,407

Various notes payable to commercial lenders, interest rates ranging from 1.9% to 10.5%, monthly payments of principal and interest until maturity dates ranging from March 2004 to October 2005. These notes are collateralized by various vehicles. 61,559 68,901

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(the period subsequent to December 31, 2001 is unaudited)

	MARCH 31, 2002	DECEMBER 31, 2001
Various notes payable to a bank, interest rates ranging from prime plus 1% (5.75% at December 31, 2001 and 6.75% at March 31, 2002, respectively) to 9.5%, monthly payments of principal and interest until maturity dates ranging from April 2002 to July 2004. These notes are collateralized by various vehicles and certain of these notes are guaranteed by an officer and shareholder.	99,294	114,229
Note payable to Dominion (Note 2), interest at 9%, monthly payments of interest only until all outstanding principal and interest due upon maturity in March 2003. This note is collateralized by all assets originally acquired by GLC and a stock pledge of all issued and outstanding shares of GLC. No cash flow from GLC operations can be used to pay down any debt except this note until paid in full. 87.5% of the proceeds from any sale of collateralized assets must be immediately remitted to Dominion.	6,952,464	6,952,464
Total	9,723,826	9,952,088

Less current portion (7,795,559) (904,060) ---
-------- ----
------ $
1,928,267
$9,048,028
===========
==========

Maturities of long-term debt based on contractual requirements for the years ending December 31, 2001 are as follows:

2002	$ 904,060
2003	7,624,487
2004	697,918
2005	309,092
2006	194,569
Thereafter	221,962
	$ 9,952,088

8. SUBORDINATED NOTES

On October 31, 2000, the Company initiated a private placement of subordinated debt units. Each unit consists of a $25,000 10% subordinated note due December 31, 2006 and a five-year warrant to purchase 10,000 shares of the Company's common stock at $3.25 per share. Interest only is payable annually, with all principal due at maturity. The warrants were valued at their estimated fair market value resulting in a discount relating to the warrants of $87,128. Proceeds from this offering totaled $1,539,260. Under the terms of the offering, all proceeds from the notes must be used for the operations of NGE Leasing.

In connection with the offering, a placement agent was paid a 10% cash commission and 3% non-accountable expense allowance totaling $200,104, and was issued warrants in the same form as those issued in the offering for a total of 61,570 shares. The warrants were valued at their estimated fair market value of $9,236. Total debt issuance costs of $237,658 are recorded as a debt discount and the total debt discount of $324,786 is being amortized using the effective interest rate method over the life of the notes.

Certain shareholders, officers and directors purchased units in this offering, (totaling $259,261 in notes and warrants representing 103,704 shares) on the same terms and conditions as non-affiliated purchasers in the offering.

9. INCOME TAXES

The provision for income taxes consists of the following:

	FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000
Current provision:		
Federal	$ --	$ 12,967
State	9,100	25,295
	9,100	38,262
Deferred provision:		
Federal	269,100	72,823
State	35,700	36,150
	304,800	108,973
	$ 313,900	$ 147,235

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

	AS OF DECEMBER 31, 2001
Deferred income tax assets:	
Allowance for doubtful account	$ --
Net operating loss	260,048
Total deferred income tax assets	260,048
Deferred income tax liabilities:	
Property and equipment	735,600
Goodwill and other intangible assets	137,885
Total deferred income tax liabilities	873,485
Net deferred	

income tax liabilities	$ 613,437

The effective tax rate differs from the statutory rate as follows:

	FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000
Statutory rate	34%	34%
State and local taxes	6%	4%
Non-deductible goodwill amortization	14%	9%
Other	(9%)	5%
Disposal of discontinued operations	--	(38%)
Effective rate	45%	14%

At December 31, 2001, the Company had available net operating loss ("NOL") carryforwards of approximately $705,700, which may be used to reduce future taxable income and begin to expire in 2020 through 2021.

10. SHAREHOLDERS' EQUITY

Warrants

In March 2001, five year warrants to purchase common stock at $2.50 per share, exercisable immediately, were issued to certain board members and shareholders as compensation for their debt guarantees. These warrants were recorded at their estimated fair value of $23,137.

Preferred Stock

The Company has a total of 5,000,000 authorized preferred shares, with rights and preferences as designated by the Board of Directors. Of the preferred shares, 1,177,000 shares are designated 10% Convertible Series A Preferred Stock. The Series A shares have a cumulative annual dividend rate of 10%, when and if declared by the Board of Directors payable thirty days after the end of each quarter. Holders are entitled to one vote per share and the Series A shares are convertible into common stock initially at a price of $3.25 per share, subject to adjustment based on the market price and various other contingencies. In addition, Series A shares will automatically be converted to common stock on a one-for-one basis if or when the Company's common stock trades on a public exchange at a price of $6.50 per share or greater for twenty consecutive days. The Series A shares have a liquidation preference of $3.25 per share plus accrued and unpaid dividends over common stock.

The Company initiated a private placement of its Series A shares in July 2001. Under the terms of the placement agreement, the Company offered a maximum of 770,000 Series A shares at a price of $3.25 per share. As of December 31, 2001, the Company had received gross proceeds of $1,225,751 from the offering, net of $322,518 of offering costs, for 377,154 Series A shares. Included in the offering costs, are a 10% commission and 3% non-accountable expense allowance paid to the placement agent. Subsequent to December 31, 2001, additional proceeds of $14,625 were received representing 4,500 additional Series A shares issued. Total Series A shares outstanding at March 31, 2002 were 381,654.

A total of 18,000 and 12,000 Series A shares were issued in this offering to a director and a shareholder, respectively, on the same terms and conditions as those sold to non-affiliated purchasers in the private offering.

11. STOCK-BASED COMPENSATION

Stock Options

In December 1998, the Board of Directors adopted the 1998 Stock Option Plan (the "Plan"). 150,000 shares of common stock have been reserved for issuance under the Plan. All options granted under the Plan will expire ten years after date of grant. The option price is to be determined by the Board of Directors on date of grant.

In September 1999, the Company granted 27,000 non-qualified stock options to certain employees to purchase the Company's common stock at $2.00 per share. The options vest over three years and expire in 2009. Also in September 1999, the Company granted 100,000 non-qualified stock options to an advisory director to purchase the Company's common stock at $2.00 per share anytime through September 30, 2004.

The following is a summary of activity for the stock options outstanding for the years ended December 31, 2001 and 2000:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	Number Of Shares	Weighted Average Exercise Price	Number Of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	112,000	$ 2.00	127,000	$ 2.00
Canceled or expired	--	--	(15,000)	--
Granted	--	--	--	--
Exercised	--	--	--	--
Outstanding, end of year	112,000	$ 2.00	112,000	$ 2.00
Exercisable, end of year	112,000	$ 2.00	104,000	$ 2.00

Pro Forma Stock-Based Compensation Disclosures

As discussed in Note 1, the Company applies APB Opinion No. 25 and related interpretations in accounting for its stock options. Accordingly, no compensation cost has been recognized for grants of options to employees since the exercise prices were not lower than the market prices of the Company's common stock on the measurement date. Had compensation been determined based on the estimated fair value at the measurement dates for awards under those plans consistent with the method prescribed by SFAS No. 123, the Company's net income would have been changed to the pro forma amounts indicated below.

	2001	2000
Net income:		
As reported	$ 381,993	$

909,078
Pro
forma $
373,390
$
900,475

The fair value of each option granted prior to fiscal year 2000 was estimated on the date of grant using the Black-Scholes option-pricing model. There were no options issued in 2001 or 2000.

12. DISCONTINUED OPERATIONS

On March 31, 2000, the Company disposed of CNG Engine Co. ("CNG") in a transaction whereby NGSG transferred all of the common stock of CNG to the former owner in exchange for all of the former owner's outstanding common stock in NGSG (692,368 shares) and a note receivable for $350,000. During the year ended December 31, 2000, the former owner defaulted on all payments due under the note receivable, and the entire amount has been reserved and reflected as a reduction in the gain from discontinued operations. The sale resulted in a non-taxable gain from discontinued operations of $943,771. Pre-tax loss from discontinued operations of $232,000 in the accompanying statement of income reflects the net loss from operations of CNG from January 1, 2000 through the date of disposal. Total revenue of CNG was $828,000 from January 1, 2000 through the date of disposal.

13. COMMITMENT

401(k) Plan

Effective January 1, 2001, the Company offered a 401(k) Plan (the "Plan") to all employees that had reached the age of eighteen and had completed six months of service. The participants may contribute up to 15% of their salary. Employer contributions are subject to Board discretion and are subject to a vesting schedule of 20% each year after the first year and 100% after six years. The Company contributed $43,500 to the Plan in 2001.

14. MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK

Sales to one customer in the year ended December 31, 2001 and one customer in the year ended December 31, 2000 amounted to a total of 26% and 12% of the Company's consolidated revenue, respectively. No other single customer accounted for more than 10% of the Company's sales in 2001 or 2000. At December 31, 2001, the Company had one customer that accounted for 18% of the Company's trade accounts receivable. Sales to one customer in the three months ended March 31, 2002 and to one customer in the three months ended March 31, 2001, amounted to a total of 34% and 13% of the Company's consolidated revenue, respectively. At March 31, 2002, the Company had one customer that accounted for 21% of the Company's trade accounts receivable. The Company generally does not obtain collateral, but requires deposits of as much as 50% on large custom contracts. The Company performs periodic credit evaluations on its customers' financial condition and believes that no allowance for doubtful accounts for trade receivables is necessary at December 31, 2001 or March 31, 2002.

15. GOODWILL--ADOPTION OF FAS 142 (UNAUDITED)

The Company adopted FAS 142 on January 1, 2002, at which time it ceased the amortization of goodwill. At March 31, 2002, the Company's goodwill had a carrying value of $2,589,655. Pursuant to FAS 142, the Company will complete its test for goodwill impairment during the second quarter 2002 and, if impairment is indicated, records such impairment as a cumulative effect of accounting change effective January 1, 2002. The following table sets forth the effect of the adoption of FAS 142 for each period.

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,	
	2002	2001	2001	2000
REPORTED NET INCOME	$ 51,991	$ 49,784	$ 371,085	$ 909,078
Add back: Goodwill amortization, net of tax effect	--	21,168	78,372	78,803
Adjusted net income	$ 51,991	$ 70,952	$ 449,457	$ 987,881
BASIC EARNINGS PER SHARE:				
Reported net income	$ .02	$ .02	$ .11	$ .27
Goodwill amortization	--	.01	.02	

.02 --------
- ----------
---------- -

ADJUSTED NET
INCOME $ .02
$ .03 $ .13
$ .29
=========
==========
==========
==========
DILUTED
EARNINGS PER
SHARE:
Reported net
income $ .01
$ .02 $ .11
$ .27
Goodwill
amortization
-- .01 .02
.02 --------
- ----------
---------- -

ADJUSTED NET
INCOME $ .01
$ .03 $ .13
$ .29
=========
==========
==========
==========

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(the period subsequent to December 31, 2001 is unaudited)

16. SEGMENT INFORMATION

Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information, establishes standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by chief operating decision makers in deciding how to allocate resources and in assessing performance.

The Company identifies its segments based on its subsidiary entities.

The Company's reportable operating segments have been determined as separately identifiable business units. The Company measures segment earnings as operating earnings, defined as income before interest and income taxes. The following amounts are expressed in thousands:

	RGS	NGE	GLC	NGSG	Total
FOR THE THREE MONTHS ENDED MARCH 31, 2002:					
Revenue from external customers	$ 867	$ 499	$ 1,324	$ --	$ 2,690
Inter-segment revenue	1,417	--	--	--	1,417
Gross profit	246	362	402	--	1,010
Depreciation and amortization	29	86	130	9	254
Interest expense	2	89	157	9	257
Other income	1	84	--	--	85
Income taxes	--	--	--	89	89
Net income	17	233	54	(208)	96
AS OF MARCH 31, 2002:					
Segment assets	1,865	6,246	9,129	2,328	19,568
Goodwill	--	--	717	1,873	2,590
Equity in the net income of investees accounted for by the equity method	--	83	--	--	83

	RGS	NGE	GLC	NGSG	Total
FOR THE THREE MONTHS ENDED MARCH 31, 2001:					
Revenue from external					

customers $ 1,067 $ 343 $ -- $ -- $ 1,410 Inter-segment revenue 331 -- -- -- 331 Gross profit 327 253 -- -- 580 Depreciation and amortization 25 53 -- 28 106 Interest expense 1 89 -- 8 98 Other income 1 65 -- -- 66 Income taxes -- -- -- 27 27 Net income 67 142 -- (159) 50 AS OF MARCH 31, 2001: Segment assets 793 4,956 8,632 2,245 16,626 Goodwill -- -- -- 1,949 1,949 Equity in the net income of investees accounted for by the equity method -- 6 -- -- 6 FOR THE YEAR ENDED DECEMBER 31, 2001: Revenue from external customers $ 3,841 $ 1,519 $ 3,402 $ -- $ 8,762 Inter-segment revenue 2,691 -- -- -- 2,691 Gross profit 1,231 1,076 1,513 -- 3,820 Depreciation and amortization 104 252 423 124 903 Interest expense 4 395 489 36 924 Other income 19 354 -- -- 373 Income taxes -- -- -- 314 314 Net income 180 549 307 (654) 382

	RGS	NGE	GLC	NGSG	Total
AS OF DECEMBER 31, 2001:					
Goodwill	--	--	717	1,873	2,590
Segment assets	1,200	6,107	9,181	2,322	18,810
Equity in the net income of investees accounted for by the equity method	--	224	--	--	224
FOR THE YEAR ENDED DECEMBER 31, 2000:					
Revenue from external customers	$ 2,576	$ 1,076	$ --	--	$ 3,652
Inter-segment revenue	2,119	--	--	--	2,119
Gross profit	1,291	826	--	--	2,117
Depreciation and amortization	91	163	--	102	356
Interest expense	7	194	--	6	207
Other income	13	51	--	(16)	48
Income taxes	--	--	--	147	147
Discontinued operations	--	--	--	692	692
Net income	306	335	--	268	909
AS OF DECEMBER 31, 2000:					
Segment assets	799	4,873	--	2,337	8,009
Goodwill	--	--	--	1,974	1,974
Equity in the net income of investees accounted for by the equity method	--	18	--	--	18

****

ASSETS ACQUIRED BY
GREAT LAKES COMPRESSION, INC.

INDEX TO FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Great Lakes Compression, Inc.

We have audited the accompanying statement of revenue and direct expenses of assets acquired by Great Lakes Compression, Inc. for the year ended December 31, 2000. This statement of revenue and direct expenses is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenue and direct expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in Note 1 and is not intended to be a complete presentation of the revenues and expenses related to the net assets acquired.

In our opinion, the statement of revenue and direct expenses presents fairly, in all material respects, the revenues and direct expenses for the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

HEIN + ASSOCIATES LLP

Dallas, Texas
July 31, 2001

ASSETS ACQUIRED BY
GREAT LEAKES COMPRESSION, INC.

STATEMENTS OF REVENUE AND DIRECT EXPENSES

	FOR THE THREE MONTHS ENDED MARCH 31, 2001	FOR THE YEAR ENDED DECEMBER 31, 2000
	(Unaudited)	
REVENUE:		
Compressor fabrication and sales	$ 298,831	$ 102,731
Compressor leasing and service	502,208	3,551,681
Total revenue	801,039	3,654,412
COSTS AND EXPENSES:		
Costs of compressor sales	96,296	118,885
Costs of compressor leasing and service	251,104	2,013,920
Total costs and expenses	347,400	2,132,805
EXCESS OF REVENUE OVER DIRECT EXPENSES	$ 453,639	$1,521,607

ASSETS ACQUIRED BY
GREAT LEAKES COMPRESSION, INC.

1. BASIS OF PRESENTATION

The accompanying financial statements present the historical revenue and direct expenses of certain compressors, facilities and related equipment (the "Assets") which were owned by Dominion Michigan Production Services, Inc. ("Dominion") and sold to Great Lakes Compression, Inc. (the "Company" or "GLC") on March 29, 2001 (Note 5). The assets are primarily located in Michigan. GLC is a wholly-owned subsidiary of Natural Gas Services Group, Inc.

These financial statements present the revenue and direct expenses of these acquired assets on the accrual basis. These financial statements do not include general and administrative, depreciation or interest expense, because these items are not expected to be comparable with those that would result from future operations of the assets. The financial statements were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the results of operations of Dominion or GLC.

Unaudited Information

The accompanying revenue and direct expenses for the three-month period ended March 31, 2001 are included herein without audit. In the opinion of management, these financial statements contain all adjustments (consisting only of normal recurring items) necessary to make the financial position and the results of operations for the periods presented not misleading. The results of operations as of and for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year.

2. NATURE OF OPERATIONS

GLC fabricates, leases and services natural gas compressors to producers of oil and natural gas, primarily in Michigan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue from the sale of fabricated equipment and services is recognized upon shipping of equipment and providing services to the customer. Rental and lease revenue is recognized over the terms of the respective lease agreements based upon the classification of the lease.

Depreciation

Depreciation of property, plant and equipment are computed using the straight-line method of accounting with estimated economic lives ranging from 3 to 30 years. Maintenance, repairs, and minor replacements are charged to expense as incurred.

Depreciation expense was approximately $66,456 (unaudited) for the three months ended March 31, 2001, and $178,392 (unaudited) for the year ended December 31, 2000.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

4. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company's leasing arrangements consist primarily of compressor leases that are classified as operating leases requiring monthly payments of $10,800. The minimum required rental period has expired and all leases are now on a month-to-month basis.

Service Agreements

The Company has compressor service agreements covering approximately seventy compressors that are owned by Dominion Exploration & Production, Inc. Under these agreements, GLC is to provide certain daily maintenance and routine service to these units for an agreed-upon monthly fee through December 31, 2005. For these services, GLC receives total monthly fees from Dominion Exploration & Production, Inc. of $77,620.

Environmental

The Company is subject to environmental issues which are not considered routine for its business activities. In the opinion of management, the ultimate liability to the Company of such issues will not have a material adverse impact on its financial position.

5. SUBSEQUENT EVENT

On March 29, 2001 GLC completed the purchase of all operating compression related assets from Dominion for cash consideration of $1,000,000 and a note payable to the seller of $7,000,000 subject to final purchase price adjustments. This acquisition included all tangible compression assets of the seller including compression fleet assets, related real estate, all compressor leases and service contracts as well as intangible compression assets owned by the seller including the corporate name of Great Lakes Compression, Inc. The acquisition was effective for accounting purposes March 31, 2001 and will be accounted for as a purchase.

NATURAL GAS SERVICES GROUP, INC.

INTRODUCTION TO PRO FORMA FINANCIAL INFORMATION

The accompanying pro forma combined statements of operations are presented as if the acquisition had occurred as of January 1, 2000.

These statements are not necessarily indicative of future operations or the actual results that would have occurred had the acquisition been consummated at the date indicated. Furthermore, the financial information of the assets acquired includes only direct revenue and operating expenses. Indirect expense amounts, which are reflected in the accompanying pro forma financial information, are based on estimates prepared by the management of Natural Gas Services Group, Inc. The pro forma financial statements should be read in conjunction with the historical financial statements and notes thereto of Natural Gas Services Group, Inc. and the Assets Acquired by Great Lakes Compression, included elsewhere in this document.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME
THREE MONTHS ENDED MARCH 31, 2001

Dominion NGSG
Michigan
Adjustments
Combined ----
------- -----
------ ------
----- -------
---- (Pro
Forma)
REVENUE:
Sales, net $
1,026,144 $
298,831 $ --
$ 1,324,975
Leasing
income and
interest
383,848
502,208 --
886,056 -----
------ ------
----- -------
---- --------
--- 1,409,992
801,039 --
2,211,031
COST OF
REVENUE: Cost
of sales
739,445
96,296 --
835,741 Cost
of leasing
90,597
251,104 --
341,701 -----
------ ------
----- -------
---- --------
--- Total
cost of
revenue
830,042
347,400 --
1,177,442 ---
-------- ----
------- -----
------ ------
----- GROSS
PROFIT
579,950
453,639 --
1,033,589
OPERATING
EXPENSES:
Selling
expense
133,347 -- --
133,347
General and
administrative
expense
232,577 --
38,600 (1)
271,177
Amortization
and
depreciation
105,647 --
131,963 (2)
237,610 -----
------ ------
----- -------
---- --------
--- OPERATING
INCOME
108,379
453,639
(170,563)
391,455 Other
income 65,985
-- -- 65,985
Interest
expense
(97,774) --
(134,652)(3)
(232,426) ---
-------- ----
------- -----
------ ------
----- INCOME
FROM
CONTINUING
OPERATIONS

BEFORE INCOME
TAXES 76,590
453,639
(305,215)
225,014
PROVISION FOR
INCOME TAXES
- Current
26,806 --
51,948 (4)
78,754 ------
----- -------
---- --------
--- ---------
-- INCOME
FROM
CONTINUING
OPERATIONS $
49,784 $
453,639 $
(357,163) $
146,260
===========
===========
===========
===========
INCOME FROM
CONTINUING
OPERATIONS
PER COMMON
SHARE: Basic
and diluted $
.01 $ .04
===========
===========
WEIGHTED
AVERAGE
COMMON SHARES
OUTSTANDING:
Basic and
diluted
3,357,632
3,357,632
===========
===========

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME

TWELVE MONTHS ENDED DECEMBER 31, 2000

	Dominion	NGSG Michigan	Adjustments	Combined (Pro Forma)
REVENUE:				
Sales, net	$ 2,576,144	$ 1,02,731	$ --	$ 2,678,875
Leasing income and interest	1,075,509	3,551,681	--	4,627,190
	3,651,653	3,654,412	--	7,306,065
COST OF REVENUE:				
Cost of sales	1,285,334	118,885	--	1,404,219
Cost of leasing	249,480	2,013,920	--	2,263,400
Total cost of revenue	1,534,814	2,132,805	--	3,667,619
GROSS PROFIT	2,116,839	1,521,607	--	3,638,446
OPERATING EXPENSES:				
Selling expense	286,540	--	--	286,540
General and administrative expense	951,323	--	330,757 (1)	1,282,080
Amortization and depreciation	355,705	--	582,072 (2)	937,777
OPERATING INCOME	523,271	1,521,607	(912,829)	1,132,049
Other income	48,400	--	--	48,400
Interest expense	(207,129)	--	(625,722) (3)	(832,851)

------ ------
----- INCOME
FROM
CONTINUING
OPERATIONS
BEFORE INCOME
TAXES 364,542
1,521,607
(1,538,551)
347,598
PROVISION FOR
INCOME TAXES:
Current
147,235 --
(5,761) (4)
141,474 -----
------ ------
----- -------
---- --------
--- INCOME
FROM
CONTINUING
OPERATIONS $
217,307 $
1,521,607
$(1,532,790)
$ 206,124
===========
===========
===========
===========
INCOME FROM
CONTINUING
OPERATIONS
PER COMMON
SHARE: Basic
and diluted $
.27 $ .27
===========
===========
WEIGHTED
AVERAGE
COMMON SHARES
OUTSTANDING:
Basic and
diluted
3,357,632
3,357,632
===========
===========

NATURAL GAS SERVICES GROUP, INC.

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

(1) Adjustment to reflect estimated additional general and administrative expenses as if the compression related assets had been acquired at the beginning of the period.

(2) Adjustment to reflect depreciation as if the compression related assets had been acquired at the beginning of the period.

(3) Adjustment to reflect interest expense on the $6,952,464 deferred purchase price due to Dominion.

(4) Adjustment to reflect estimated additional income tax expense (benefit) as if the compression related assets had been acquired at the beginning of the period.

- --

We have not authorized any dealer, salesperson or other person to give any information or represent anything not contained in this prospectus. You must not rely on any unauthorized information. This prospectus does not offer to sell or buy any units in any jurisdiction where it is unlawful. The information in this prospectus is current only as of its date.

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Until ______, 2002, all dealers that effect transactions in these securities common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

- --

NATURAL GAS SERVICES, INC.

1,650,000 SHARES OF COMMON STOCK
AND
1,650,000 WARRANTS TO PURCHASE 1,650,000 SHARES OF COMMON STOCK

PROSPECTUS

NEIDIGER, TUCKER, BRUNER, INC.

_____________, 2002

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 7-109-102 of the Colorado Business Corporation Act permits a Colorado corporation to indemnify any director against liability if such person acted in good faith and, in the case of conduct in an official capacity with the corporation, that the director's conduct was in the corporation's best interests and, in all other cases, that the director's conduct was at least not opposed to the best interests of the corporation or, with regard to criminal proceedings, the director had no reasonable cause to believe the director's conduct was unlawful.

Section 7-109-103 of the Colorado Business Corporation Act provides that, unless limited by its articles of incorporation, a Colorado corporation shall indemnify a person who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which the person was a party because the person is or was a director, against reasonable expenses incurred by him or her in connection with the proceeding.

Section 3 of Article IX of our articles of incorporation, filed as Exhibit 3.1 hereto, provides that we shall indemnify, to the maximum extent permitted by law in effect from time to time, any person who is or was a director, officer, agent, fiduciary or employee of ours against any claim, liability or expense arising against or incurred by such person made party to a proceeding because such person is or was a director, officer, agent, fiduciary or employee of ours or because such person is or was serving another entity as a director, officer, partner, trustee, employee, fiduciary or agent at our request. We further have the authority to the maximum extent permitted by law to purchase and maintain insurance providing such indemnification.

Article VI of our bylaws, filed as Exhibit 3.4 hereto, provides for the indemnification of certain persons.

Section 8(b) of the form of underwriting agreement filed as Exhibit 1.1 hereto provides that the underwriter agrees to indemnify and hold harmless us, each of our directors, each of our officers who has signed the registration statement, each other person, if any, who controls us within the meaning of Section 15 of the Securities Act of 1933 or Section 20(a) of the Securities Exchange Act of 1934 with respect to statements or omissions, if any, made in any preliminary prospectus, the registration statement or the prospectus, or any amendment or supplement thereto, or in any application, in reliance upon and in conformity with written information furnished to us with respect to the underwriters, by or on behalf of the underwriters expressly for inclusion in any such document. Section 8(c) provides for contribution in circumstances where the indemnity provisions are unavailable.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Expenses payable by us in connection with the issuance and distribution of the securities being registered hereby are as follows:

SEC Registration Fee	$ 2,469
NASD Filing Fee	3,181
American Stock Exchange Listing Fee	50,500
Accounting Fees and Expenses	55,000*
Legal Fees and Expenses	85,000*
Representative's Non-Accountable Expense Allowance	297,000
Printing, Freight and Engraving	100,000*
Transfer Agent Fee	5,000*
Miscellaneous	10,850*
Total	$ 600,000

*Estimated.

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

Beginning in March 1999, we issued 1,000,000 shares of our common stock to 25 investors. The shares were issued in transactions not involving a public offering and were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. The persons to whom the shares were issued had access to full information concerning us and represented that they acquired the shares for their own account and not for the purpose of distribution. The certificates for the shares contain a restrictive legend advising that the shares may not be offered for sale, sold or otherwise transferred without having first been registered under the 1933 Act or pursuant to an exemption from registration under the 1933 Act. The underwriter of this offering was Berry-Shino Securities, Inc. which received a commission of $126,000 and a nonaccountable expense allowance of $15,000.

Beginning in October 2000, we issued 62 units comprised of Series A 10% Subordinated Notes and Five Year Warrants to Purchase Common Stock to 34 investors. The units were issued in transactions not involving a public offering and were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. A Form D relating to the offering was filed with the Securities and Exchange Commission. The persons to whom the units were issued had access to full information concerning us and represented that they acquire the shares for their own account and not for the purpose of distribution. The certificates for the securities contain a restrictive legend advising that the shares may not be offered for sale, sold or otherwise transferred without having first been registered under the 1933 Act or pursuant to an exemption from registration under the 1933 Act. The underwriter of this offering was Berry-Shino Securities, Inc. which received a commission of $153,926, a nonaccountable expense allowance of $46,178 and warrants to purchase 61,570 shares of our common stock at $3.25 per share.

In March 2001, we issued five year warrants to purchase 68,524 shares of our common stock at $2.50 per share in exchange for persons guaranteeing approximately $1,749,000 of our debt. The warrants were

issued in a transaction not involving a public offering and were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. The persons to whom the warrants were issued had access to full information concerning us. The certificates for the warrants contain a restrictive legend advising that the warrants and underlying shares may not be offered for sale, sold or otherwise transferred without having first been registered under the 1933 Act or pursuant to an exemption from registration under the 1933 Act. There was no underwriter involved in the exchange of the warrants for the guaranteeing of the debt.

Beginning in July 2001, we issued 381,654 shares of our 10% Convertible Series A Preferred Stock to 35 investors. The shares were issued in transactions not involving a public offering and were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. A Form D relating to the offering was filed with the Securities and Exchange Commission. The persons to whom the shares were issued had access to full information concerning us and represented that they acquired the shares for their own account and not for the purpose of distribution. The certificates for the shares contain a restrictive legend advising that the shares may not be offered for sale, sold or otherwise transferred without having first been registered under the 1933 Act or pursuant to an exemption from registration under the 1933 Act. The underwriter of this offering was Neidiger, Tucker, Bruner, Inc. which received a commission of $124,037 a nonaccountable expense allowance of $37,211 and warrants to purchase 38,165 shares of our 10% Convertible Series A Preferred Stock.

In April 2002, we issued five year warrants to purchase 16,472 shares of our common stock at $3.25 per share in exchange for three persons guaranteeing approximately $824,000 of our debt. The warrants were issued in a transaction not involving a public offering and were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. The persons to whom the warrants were issued had access to full information concerning us. The certificates for the warrants contain a restrictive legend advising that the warrants and underlying shares may not be offered for sale, sold or otherwise transferred without having first been registered under the 1933 Act or pursuant to an exemption from registration under the 1933 Act. There was no underwriter involved in the exchange of the warrants for the guaranteeing of the debt.

ITEM 27. EXHIBITS.

The following is a list of all exhibits filed as part of this Registration Statement:

EXHIBIT NO. DESCRIPTION AND METHOD OF FILING - ---- ------- ----- ------------- ------------- - 1.1 Form of underwriting agreement. 1.2 Form of selected dealers agreement. 3.1 Articles of incorporation. 3.2 Amendment to articles of incorporation dated March 31, 1999, and filed on May 25, 1999. 3.3 Amendment to articles of incorporation dated July 25, 2001, and filed on July 30, 2001. 3.4 Bylaws. 4.1 Form of warrant certificate. 4.2 Form of warrant agent agreement.

EXHIBIT NO. DESCRIPTION AND METHOD OF FILING - ----------- --- 4.3 Form of lock-up agreement. 4.4 Form of representative's option for the purchase of common stock. 4.5 Form of representative's option for the purchase of warrants. 4.6 Form of consulting agreement between Natural Gas Services Group, Inc. and the representative.* 5.1 Opinion of Dorsey & Whitney LLP on legality.* 10.1 1998 Stock Option Plan. 10.2 Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001. 10.3 Amendment to Guaranty Agreement between Natural Gas Services Group, Inc. and Dominion Michigan Production Services, Inc. 10.4 Loan Agreement between Natural Gas Services Group, Inc., Wallace Sparkman, Wallace O. Sellers, CAV-RDV, Ltd., Diamente Investments, L.P., Rotary Gas Systems, Inc., NGE Leasing, Inc. and Western National Bank dated September 15, 1999, and First Amendment dated March 9, 2001, Second Amendment dated March 20, 2001, Third Amendment dated July 25, 2001, Fourth Amendment dated December 12, 2001, and Fifth Amendment dated April 2, 2002. 10.5 Employment Agreement between Natural Gas Services Group, Inc. and Alan Kurus dated August 31, 2000. 10.6 Employment

Agreement between Natural Gas Services Group, Inc. and Wayne Vinson dated January 1, 1999. 10.7 Employment Agreement between Natural Gas Services Group, Inc. and Earl R. Wait dated January 1, 1999. 10.8 Form of Series A 10% Subordinated Notes due December 31, 2006. 10.9 Form of Five-Year Warrants to Purchase Common Stock. 10.10 Warrants issued to Berry-Shino Securities, Inc. 10.11 Warrants issued to Neidiger, Tucker, Bruner, Inc. 10.12 Form of warrant issued in March 2001 for guaranteeing debt. 10.13 Form of warrant issued in April 2002 for guaranteeing debt. 21 Subsidiaries of the registrant. 23.1 Consent of HEIN + ASSOCIATES LLP 23.4 Consent of Dorsey & Whitney LLP (included in Exhibit 5.1).*

* To be filed by amendment.

ITEM 28. UNDERTAKINGS.

The undersigned will:

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and

(iii) include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

The undersigned will provide to the underwriter at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the undersigned pursuant to the foregoing provisions, or otherwise, the undersigned has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the undersigned of expenses incurred or paid by a director, officer or controlling person of the undersigned in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the undersigned will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned will:

(1) For determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the undersigned under Rule 424(b)(1), or (4) or 497(h) under the Securities Act as part of this registration statement as of the time the Securities and Exchange Commission declared it effective.

(2) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in the City of Midland, State of Texas on May 14, 2002.

NATURAL GAS SERVICES, INC.

/s/ Wayne L. Vinson

Wayne L. Vinson, President and Principal Executive Officer

/s/ Earl R. Wait

Earl R. Wait, Principal Financial and Accounting Officer

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates stated:

SIGNATURE
TITLE DATE -
--------- --
--- ---- /s/
Wallace O.
Sellers
Director May
14, 2002 - -

--- Wallace
O. Sellers
/s/ Wayne L.
Vinson
Director May
14, 2002 - -

--- Wayne L.
Vinson /s/
Scott W.
Sparkman
Director May
14, 2002 - -

--- Scott W.
Sparkman /s/
Charles G.
Curtis
Director May
14, 2002 - -

--- Charles
G. Curtis
Director
____________,
2002 - -----

James T.
Grigsby

EXHIBIT INDEX

EXHIBIT NO. DESCRIPTION AND METHOD OF FILING PAGE NUMBER - ------ ----- --------- --------------- -------- ------ ----- 1.1 Form of underwriting agreement. 1.2 Form of selected dealers agreement. 3.1 Articles of incorporation. 3.2 Amendment to articles of incorporation dated March 31, 1999, and filed on May 25, 1999. 3.3 Amendment to articles of incorporation dated July 25, 2001, and filed on July 30, 2001. 3.4 Bylaws. 4.1 Form of warrant certificate. 4.2 Form of warrant agent agreement. 4.3 Form of lock-up agreement. 4.4 Form of representative's option for the purchase of common stock. 4.5 Form of representative's option for the purchase of warrants. 4.6 Form of consulting agreement between Natural Gas Services Group, Inc. and the representative.* 5.1 Opinion of Dorsey & Whitney LLP on legality.* 10.1 1998 Stock Option Plan. 10.2 Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001. 10.3 Amendment to Guaranty Agreement between Natural Gas Services Group, Inc. and Dominion Michigan Production Services, Inc. 10.4 Loan Agreement between Natural Gas Services Group, Inc., Wallace Sparkman, Wallace O. Sellers, CAV-

RDV, Ltd.,
Diamente
Investments,
L.P., Rotary
Gas Systems,
Inc., NGE
Leasing, Inc.
and Western
National Bank
dated September
15, 1999, and
First Amendment
dated March 9,
2001, Second
Amendment dated
March 20, 2001,
Third Amendment
dated July 25,
2001, Fourth
Amendment dated
December 12,
2001, and Fifth
Amendment dated
April 2, 2002.
10.5 Employment
Agreement
between Natural
Gas Services
Group, Inc. and
Alan Kurus
dated August
31, 2000.

10.6	Employment Agreement between Natural Gas Services Group, Inc. and Wayne Vinson dated January 1, 1999.
10.7	Employment Agreement between Natural Gas Services Group, Inc. and Earl R. Wait dated January 1, 1999.
10.8	Form of Series A 10% Subordinated Notes due December 31, 2006.
10.9	Form of Five-Year Warrants to Purchase Common Stock.
10.10	Warrants issued to Berry-Shino Securities, Inc.
10.11	Warrants issued to Neidiger, Tucker, Bruner, Inc.
10.12	Form of warrant issued in March 2001 for guaranteeing debt.
10.13	Form of warrant issued in April 2002 for guaranteeing debt.
21	Subsidiaries of the registrant.
23.1	Consent of HEIN + ASSOCIATES LLP.
23.4	Consent of Dorsey & Whitney LLP (included in Exhibit 5.1).*

* To be filed by amendment.

EXHIBIT 1.01

1,650,000 SHARES OF COMMON STOCK

1,650,000 WARRANTS TO PURCHASE COMMON STOCK

NATURAL GAS SERVICES GROUP, INC.

UNDERWRITING AGREEMENT

June _____, 2002

Neidiger, Tucker, Bruner, Inc.
1675 Larimer Street, Suite 300
Denver, Colorado 80202

Dear Sirs:

Natural Gas Services Group, Inc., a Colorado corporation (the "Company"), hereby confirms its agreement with you (who are sometimes hereinafter referred to as the "Representative") and with the other members of the underwriting group (the "Underwriters") named on Schedule 1 hereto as follows:

1. Introductory. Subject to the terms and conditions contained herein, the Company proposes to issue and sell to the Underwriters 1,650,000 shares of common stock (the "Common Stock") and 1,650,000 redeemable warrants to purchase Common Stock (the "Warrants"). The Common Stock and Warrants shall be offered and sold separately and traded separately on the American Stock Exchange. For the purpose of this Agreement, references hereinafter to Common Stock and Warrants shall sometimes be referred to as the "Securities" where appropriate. In addition, solely for the purpose of covering over-allotments, the Company grants to the Representative options to purchase up to an additional 247,500 shares of Common Stock and/or 247,500 Warrants (the "Additional Securities"), which options to purchase shall be exercisable, in whole or in part, from time to time during the sixty (60) day period commencing on the date on which the Registration Statement (as hereinafter defined) is initially declared effective (the "Effective Date") by the Securities and Exchange Commission (the "Commission"). Unless otherwise noted, the Common Stock, together with the additional 247,500 shares of Common Stock issuable on exercise of the over-allotment option, is referred to hereinafter as the "Common Stock" and the Warrants and the 247,500 Warrants issuable on exercise of the over-allotment option are referred to hereinafter as the "Warrants".

Each Warrant will entitle the holder to purchase one share of Common Stock (a "Warrant Share") at a price equal to 125% of the offering price of the Common Stock during the four year exercise period of the Warrants, subject to the Company's right of redemption. The Warrants may be redeemed by the Company commencing one year from the Effective Date of the Registration Statement upon at least 30 days prior written notice, in whole but not in part, at a price of $.25 per Warrant provided the closing bid price for the Company's Common Stock is at least 175% of the exercise price of the Warrant during each day of the twenty (20) trading days immediately preceding the date of the Company's written notice of redemption; provided, that notice of any such redemption must be given not more than five days after such 20 day trading period. The terms and provisions of the Warrants shall be governed by a warrant agreement between the Company and its transfer agent (the "Warrant Agreement"), which Warrant Agreement will contain, among other provisions, anti-dilution protection for warrantholders on terms acceptable to the Representative. The Common Stock, Warrants and Additional Securities are more fully described in the Prospectus referred to below. All references to the Company below shall be deemed to include, where appropriate, the Company's subsidiaries, if any.

2. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, each of the Underwriters that:

a. The Company has filed with the Commission a registration statement, and may have filed one or more amendments thereto, on Form SB-2 (Registration No. __________), including in such registration statement and each such amendment a facing sheet, the information called for by Part I, audited consolidated financial statements for the past three fiscal years or such other period as may be appropriate, the information called for by Part II, the undertakings to deliver certificates, file reports and file post-effective amendments, the required signatures, consents of experts, exhibits, a related preliminary prospectus (a "Preliminary Prospectus") and any other information or documents which are required for the registration of the Common Stock and Warrants, the Warrant Shares, the Representative's purchase options and underlying Common Stock (hereinafter collectively referred to as the "Representative's Options" as more fully described in Section 5(p)), under the Securities Act of 1933, as amended (the "Act"). As used in this Agreement, the term "Registration Statement" means such registration

statement, including incorporated documents, all exhibits and consolidated financial statements and schedules thereto, as amended, when it becomes effective, and shall include information with respect to the Common Stock, the Warrants, the Warrant Shares and the Representative's Options, and the offering thereof permitted to be omitted from the Registration Statement when it becomes effective pursuant to Rule 430A of the General Rules and Regulations promulgated under the Act (the "Regulations"), which information is deemed to be included therein when it becomes effective as provided by Rule 430A; the term "Preliminary Prospectus" means each prospectus included in the Registration Statement or any amendments thereto, before it becomes effective under the Act and any prospectus filed by the Company with the consent of the Representative pursuant to Rule 424(a) of the Regulations; and the term "Prospectus" means the final prospectus included as part of the Registration Statement, except that if the prospectus relating to the securities covered by the Registration Statement in the form first filed on behalf of the Company with the Commission pursuant to Rule 424(b) of the Regulations shall differ from such final prospectus, the term "Prospectus" shall mean the prospectus as filed pursuant to Rule 424(b) from and after the date on which it shall have first been used.

b. When the Registration Statement becomes effective, and at all times subsequent thereto, to and including the Closing Date (as defined in Section 3) and each Additional Closing Date (as defined in Section 3), and during such longer period as the Prospectus may be required to be delivered in connection with sales by the Representative or any dealer, and during such longer period until any post-effective amendment thereto shall become effective, the Registration Statement (and any post-effective amendment thereto) and the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment or supplement to the Registration Statement or the Prospectus) will contain all statements which are required to be stated therein in accordance with the Act and the Regulations, will comply with the Act and the Regulations, and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and no event will have occurred which should have been set forth in an

amendment or supplement to the Registration Statement or the Prospectus which has not then been set forth in such an amendment or supplement; and no Preliminary Prospectus, as of the date filed with the Commission, included any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading; except that no representation or warranty is made in this Section 2(b) with respect to statements or omissions made in reliance upon and in conformity with written information furnished to the Company as stated in Section 8(b) with respect to the Underwriters by or on behalf of the Underwriters expressly for inclusion in any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto.

c. Neither the Commission nor the "blue sky" or securities authority of any jurisdiction has issued an order (a "Stop Order") suspending the effectiveness of the Registration Statement, preventing or suspending the use of any Preliminary Prospectus, the Prospectus, the Registration Statement, or any amendment or supplement thereto, refusing to permit the effectiveness of the Registration Statement, or suspending the registration or qualification of the Common Stock, the Warrants, the Warrant Shares, or the Representative's Options, nor has any of such authorities instituted or threatened to institute any proceedings with respect to a Stop Order.

d. Any contract, agreement, instrument, lease, or license required to be described in the Registration Statement or the Prospectus has been properly described therein. Any contract, agreement, instrument, lease, or license required to be filed as an exhibit to the Registration Statement has been filed with the Commission as an exhibit to or has been incorporated as an exhibit by reference into the Registration Statement.

e. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Colorado, with full power and authority, and all necessary consents, authorizations, approvals, orders, licenses, certificates, and permits of and from, and declarations and filings with, all federal, state, local, and other governmental authorities and all courts and other tribunals, to own, lease, license, and use its properties and assets and to carry on the business in the manner described in the Prospectus. The Company is duly qualified to do business and is in good standing in

every jurisdiction in which its ownership, leasing, licensing, or use of property and assets or the conduct of its business makes such qualifications necessary. The Company has no subsidiaries except as disclosed in the Prospectus.

f. The authorized capital stock of the Company consists of 30,000,000 shares of Common Stock, of which __________ shares of Common Stock are issued and outstanding, __________ shares of Common Stock are reserved for issuance upon the exercise or conversion of currently outstanding options and warrants and 10% Convertible Series A Preferred Stock ("Convertible Preferred Stock"), __________ shares of Common Stock are reserved for issuance upon the exercise of the remaining options authorized under the Company's option plan; and 5,000,000 shares of preferred stock, of which __________ shares of Convertible Preferred Stock are issued and outstanding. Each outstanding share of Common Stock and Convertible Preferred Stock is validly authorized, validly issued, fully paid, and nonassessable, without any personal liability attaching to the ownership thereof, and has not been issued and is not owned or held in violation of any preemptive rights of stockholders. There is no commitment, plan, or arrangement to issue, and no outstanding option, warrant, or other right calling for the issuance of, any share of capital stock of the Company or any security or other instrument which by its terms is convertible into, exercisable for, or exchangeable for capital stock of the Company, except as set forth above, and as may be properly described in the Prospectus.

g. The consolidated financial statements of the Company included in the Registration Statement and the Prospectus fairly present with respect to the Company the consolidated financial position, the results of operations, and the other information purported to be shown therein at the respective dates and for the respective periods to which they apply. Such consolidated financial statements have been prepared in accordance with generally accepted accounting principles, except to the extent that certain footnote disclosures regarding any stub period may have been omitted in accordance with the applicable rules of the Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), consistently applied throughout the periods involved, are correct and complete, and are in accordance with the books and records of the Company.

The accountants whose report on the audited consolidated financial statements is filed with the Commission as a part of the Registration Statement are, and during the periods covered by their report(s) included in the Registration Statement and the Prospectus were, independent certified public accountants with respect to the Company within the meaning of the Act and the Regulations. No other financial statements are required by Form SB-2 or otherwise to be included in the Registration Statement or the Prospectus. There has at no time been a material adverse change in the consolidated financial condition, results of operations, business, properties, assets, liabilities, or future prospects of the Company from the latest information set forth in the Registration Statement or the Prospectus, except as may be properly described in the Prospectus.

h. There is no litigation, arbitration, claim, governmental or other proceeding (formal or informal), or investigation pending, or, to the knowledge of the Company, threatened, or in prospect with respect to the Company or any of its operations, businesses, properties, or assets, except as may be properly described in the Prospectus or such as individually or in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company. The Company is not in violation of, or in default with respect to, any law, rule, regulation, order, judgment, or decree except as may be properly described in the Prospectus or such as in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company; nor is the Company required to take any action in order to avoid any such violation or default.

i. The Company has good and marketable title in fee simple absolute to all real properties and good title to all other properties and assets which the Prospectus indicates are owned by it, free and clear of all liens, security interests, pledges, charges, encumbrances, and mortgages except as may be properly described in the Prospectus or such as in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company. No real property owned, leased, licensed, or used by the Company lies in an area which is, or to the knowledge of the Company will be, subject to zoning, use, or building code

restrictions which would prohibit, and no state of facts relating to the actions or inaction of another person or entity or his or its ownership, leasing, licensing, or use of any real or personal property exists or will exist which would prevent, the continued effective ownership, leasing, licensing, or use of such real property in the business of the Company as presently conducted or as the Prospectus indicates it contemplates conducting, except as may be properly described in the Prospectus or such as in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company.

j. Neither the Company nor any other party is now or is expected by the Company to be in violation or breach of, or in default with respect to complying with, any material provision of any contract, agreement, instrument, lease, license, arrangement, or understanding which is material to the Company, and each such contract, agreement, instrument, lease, license, arrangement, and understanding is in full force and is the legal, valid, and binding obligation of the parties thereto and is enforceable as to them in accordance with its terms. The Company enjoys peaceful and undisturbed possession under all leases and licenses under which it is operating. The Company is not a party to or bound by any contract, agreement, instrument, lease, license, arrangement, or understanding, or subject to any charter or other restriction, which has had or may in the future have a material adverse effect on the financial condition, results of operations, business, properties, assets, liabilities, or future prospects of the Company. The Company is not in violation or breach of, or in default with respect to, any term of its Articles of Incorporation (or other charter document) or bylaws.

k. All patents, patent applications, trademarks, trademark applications, trade names, service marks, copyrights, franchises, technology, know-how and other intangible properties and assets (all of the foregoing being herein called "Intangibles") that the Company owns or has pending, or under which it is licensed, are in good standing and uncontested. Except as otherwise disclosed in the Prospectus, the Intangibles are owned by the Company, free and clear of all liens, security interests, pledges, and encumbrances. All registered trademarks used by the Company to identify its services are protected by registration in the name of the Company on the principal register of the United States

Patent Office. There is no right under any Intangible necessary to the business of the Company as presently conducted or as the Prospectus indicates it contemplates conducting (except as may be so designated in the Prospectus). The Company has not infringed, is not infringing, and has not received notice of infringement with respect to asserted Intangibles of others. To the knowledge of the Company, there is no infringement by others of Intangibles of the Company. To the knowledge of the Company, there is no Intangible of others which has had or may in the future have a materially adverse effect on the financial condition, results of operations, business, properties, assets, liabilities, or future prospects of the Company.

l. Neither the Company nor any director, officer, agent, employee, or other person associated with or acting on behalf of the Company has, directly or indirectly: used any corporate funds for unlawful contributions, gifts, entertainment, or other unlawful expenses relating to political activity; made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds; violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or made any bribe, rebate, payoff, influence payment, kickback, or other unlawful payment. The Company has not accepted any material advertising allowances or marketing allowances from suppliers to the Company and, to the extent any advertising allowance has been accepted, the Company has provided proper documentation to the supplier with respect to advertising as to which the advertising allowance has been granted.

m. The Company has all requisite power and authority to execute and deliver, and to perform thereunder each of this Agreement, the Warrants, the Representative's Options and the Consulting Agreement described in Section 5(ff). All necessary corporate proceedings of the Company have been duly taken to authorize the execution and delivery, and performance thereunder by the Company of this Agreement, the Warrants, the Representative's Options and the Consulting Agreement. This Agreement has been duly authorized, executed, and delivered by the Company, is a legal, valid, and binding obligation of the Company, and is enforceable as to the Company in accordance with its terms. Each of the Warrants and the Consulting Agreement has been duly

authorized by the Company and, when executed and delivered by the Company, will each be a legal, valid, and binding obligation of the Company, and will be enforceable against the Company in accordance with its respective terms. No consent, authorization, approval, order, license, certificate, or permit of or from, or declaration or filing with, any federal, state, local, or other governmental authority or any court or other tribunal is required by the Company for the execution and delivery, or performance thereunder by the Company of this Agreement, the Warrants, the Representative's Options or the Consulting Agreement except filings under the Act which have been or will be made before the Closing Date and such consents consisting only of consents under "blue sky" or securities laws which are required in connection with the transactions contemplated by this Agreement and which have been obtained at or prior to the date of this Agreement. No consent of any party to any contract, agreement, instrument, lease, license, arrangement, or understanding to which the Company is a party, or to which any of its properties or assets are subject, is required for the execution or delivery, or performance thereunder of this Agreement, the Warrants, the Representative's Options or the Consulting Agreement; and the execution and delivery, and performance thereunder of this Agreement, the Warrants, the Representative's Options and the Consulting Agreement will not violate, result in a breach of, conflict with, or (with or without the giving of notice or the passage of time or both) entitle any party to terminate or call a default under any such contract, agreement, instrument, lease, license, arrangement, or understanding, or violate or result in a breach of any term of the Articles of Incorporation or by-laws of the Company, or violate, result in a breach of, or conflict with any law, rule, regulation, order, judgment, or decree binding on the Company or to which any of its operations, businesses, properties, or assets are subject.

n. The Common Stock, the Warrants, the Warrant Shares, and the Representative's Option Securities are validly authorized and reserved for issuance. The Common Stock, when issued and delivered in accordance with this Agreement, the Warrant Shares, when issued and delivered upon exercise of the Warrants, the Common Stock underlying the Representative's Option Securities, when issued and delivered upon exercise of the Representative's Options, upon payment of the exercise price therefor,

will be validly issued, fully paid, and nonassessable, without any personal liability attaching to the ownership thereof, and will not be issued in violation of any preemptive rights of stockholders, and purchasers of any of the foregoing will receive good title thereto, all such title free and clear of all liens, security interests, pledges, charges, encumbrances, stockholders' agreements, and voting trusts.

o. The Common Stock, the Warrants, the Warrant Shares, and the Representative's Options conform to all statements relating thereto contained in the Registration Statement and the Prospectus.

p. Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, and except as may otherwise be properly described in the Prospectus, the Company has not (i) issued any securities or incurred any liability or obligation, primary or contingent, for borrowed money, (ii) entered into any transaction not in the ordinary course of business, or (iii) declared or paid any dividend on its capital stock.

q. Neither the Company nor any of its officers, directors, or affiliates (as defined in the Regulations), has taken or will take, directly or indirectly, prior to the termination of the distribution of securities contemplated by this Agreement, any action designed to stabilize or manipulate the price of any security of the Company, or which has caused or resulted in, or which might in the future reasonably be expected to cause or result in, stabilization or manipulation of the price of any security of the Company, to facilitate the sale or resale of the Common Stock and Warrants.

r. The Company has not incurred any liability for a fee, commission, or other compensation on account of the employment of a broker or finder in connection with the transactions contemplated by this Agreement.

s. The Company has obtained from each officer, director and person who beneficially owns 5% or more of the shares of the Company's Common Stock or derivative securities convertible into shares of the Company's Common Stock his or her enforceable written agreement that for a period of 12 months from the Effective Date, he, she or it will not, without the Representative's prior written consent, offer, sell, contract to sell, pledge, hypothecate, or grant any option to purchase, or otherwise dispose of,

directly or indirectly, any shares of Common Stock or any security or other instrument convertible into or exchangeable for shares of Common Stock (except that, subject to compliance with applicable securities laws, any such officer, director or stockholder may transfer his, her or its stock in a transaction specified in such agreement, provided that any such transferee shall agree, as a condition to such transfer, to be bound by the restrictions set forth in the agreement).

t. Except as otherwise provided in the Registration Statement, no person or entity has the right to require registration of shares of Common Stock or other securities of the Company because of the filing or effectiveness of the Registration Statement.

u. The Company is eligible to use Form SB-2 for registration of the Common Stock, the Warrants, the Warrant Shares and the Representative's Options.

v. No unregistered securities of the Company or of a predecessor of the Company have been sold by the Company or a predecessor within three years prior to the date hereof, except as described in the Registration Statement.

w. Except as set forth in the Prospectus, there is and at the Closing Date there will be no action, suit or proceeding before any court, arbitration tribunal or governmental agency, authority or body pending or, to the knowledge of the Company, threatened which might result in judgments against the Company not adequately covered by insurance or which collectively might result in any material adverse change in the condition (financial or otherwise), the business or the prospects of the Company or would materially affect the properties or assets of the Company.

x. The Company has filed all federal and state tax returns which are required to be filed by it and has paid all taxes shown on such returns and all assessments received by it to the extent such taxes have become due. All taxes with respect to which the Company is obligated have been paid or adequate accruals have been set up to cover any such unpaid taxes.

y. Except as set forth in the Prospectus:

i. The Company has obtained all permits, licenses and other authorizations which are required under the Environmental Laws for the ownership, use and operation of each location operated or leased by the Company

(the "Property"), all such permits, licenses and authorizations are in effect, no appeal nor any other action is pending to revoke any such permit, license or authorization, and the Company is in full compliance with all terms and conditions of all such permits, licenses and authorizations.

ii. The Company and the Property are in material compliance with all Environmental Laws including, without limitation, all restrictions, conditions, standards, limitations, prohibitions, requirements, obligations, schedules and timetables contained in the Environmental Laws or contained in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder.

iii. The Company has not, and to the best knowledge of the Company's executive officers, no other person has, released, placed, stored, buried or dumped any Hazardous Substances, Oils, Pollutants or Contaminants or any other wastes produced by, or resulting from, any business, commercial, or industrial activities operations, or processes, on, beneath, or adjacent to the Property or any property formerly owned, operated or leased by the Company except for inventories of such substances to be used, and wastes generated therefrom, in the ordinary course of business of the Company (which inventories and wastes, if any, were and are stored or disposed of in accordance with applicable laws and regulations and in a manner such that there has been no material release of any such substances into the environment).

iv. Except for a Phase I Environmental Assessment and Limited Subsurface Investigation Report dated May 21, 2001 and prepared by Gosling Czubak Engineering Sciences, Inc. and a report by Innovative Risk Management dated December 27, 1999, there exists no written or tangible report, synopsis or summary of any asbestos, toxic waste or Hazardous Substances, Oils, Pollutants or Contaminants investigation made with respect to all or any portion of the assets of the Company (whether or not prepared by experts and whether or not in the possession of the executive officers of the Company).

v. Definitions: As used herein:

(1) Environmental Laws means all federal, state and local laws, regulations, rules and ordinances relating to pollution or protection of the environment, including, without limitation, laws relating to Releases or threatened Releases of Hazardous Substances, Oils, Pollutants or Contaminants into the indoor or outdoor environment (including, without limitation, ambient air, surface water, groundwater, land, surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, Release, transport or handling of Hazardous Substances, Oils, Pollutants or Contaminants.

(2) Hazardous Substances, Oils, Pollutants or Contaminants means all substances defined as such in the National Oil and Hazardous Substances Pollutant Contingency Plan, 40 C.F.R. Section 300.6, or defined as such under any Environmental Law.

(3) Release means any release, spill, emission, discharge, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environmental (including, without limitation, ambient air, surface water, groundwater, and surface or subsurface strata) or into or out of any property, including the movement of Hazardous Substances, Oils, Pollutants or Contaminants through or in the air, soil, surface water, groundwater or any property.

z. Any pro forma financial or other information and related notes included in the Registration Statement, each Preliminary Prospectus and the Prospectus comply in all material respects with the requirements of the Act and the rules and regulations of the Commission thereunder and present fairly the pro forma information shown, as of the dates and for the periods covered by such pro forma information. Such pro forma information, including any related notes and schedules, has been prepared on a basis consistent with the historical financial statements and other historical information, as applicable, included in the Registration Statement, the Preliminary Prospectus and the Prospectus, except for the pro forma adjustments specified therein, and give effect to

assumptions made on a reasonable basis to give effect to historical and, if applicable, proposed transactions described in the Registration Statement, each Preliminary Prospectus and the Prospectus.

All of the above representations and warranties shall survive the performance or termination of this Agreement.

3. Purchase, Sale, and Delivery of the Common Stock and the Warrants. On the basis of the representations, warranties, covenants, and agreements of the Company herein contained, but subject to the terms and conditions herein set forth, the Company agrees to sell to the Underwriters, severally and not jointly, and the Underwriters, severally and not jointly, agree to purchase from the Company the number of shares of Common Stock and Warrants set forth opposite the Underwriters' names in Schedule 1 hereto.

The purchase price per share of Common Stock to be paid by the Underwriters shall be $__________ and the purchase price per Warrant to be paid by the Underwriters shall be $.225. The initial public offering price of the Common Stock shall be $__________ and the initial public offering price of the Warrants shall be $.25.

Payment for the Common Stock and Warrants by the Underwriters shall be made by certified or official bank check in clearing house funds, payable to the order of the Company at the offices of the Representative, or at such other place in Denver, Colorado as the Representative shall determine and advise the Company by at least two full days' notice in writing, upon delivery of the Common Stock and Warrants to the Representative. Such delivery and payment shall be made at 10:00 a.m., Mountain Time, on the third business day following the time of the initial public offering, as defined in Section 10(a). The time and date of such delivery and payment are herein called the "Closing Date."

In addition, the Company hereby grants to the Representative the option to purchase all or a portion of the Additional Securities as may be necessary to cover over-allotments, at the same purchase price per Additional Security as the price per share of Common Stock or Warrant provided for in this Section 3. The Representative may purchase Common Stock and/or Warrants when exercising such option, in its sole discretion. This option may be exercised by the Representative on the basis of the representations, warranties, covenants, and agreements of the Company herein contained, but subject to the terms and conditions herein set forth, at any

time and from time to time on or before the 60th day following the Effective Date of the Registration Statement, by written notice by the Representative to the Company. Such notice shall set forth the aggregate number of Additional Securities as to which the option is being exercised, and the time and date, as determined by the Representative, when such Additional Securities are to be delivered (such time and date are herein called an "Additional Closing Date"); provided, however, that no Additional Closing Date shall be earlier than the Closing Date nor earlier than the third business day after the date on which the notice of the exercise of the option shall have been given nor later than the eighth business day after the date on which such notice shall have been given; and further provided, that not more than two Additional Closings shall be noticed and held following purchase of Additional Securities by the Representative.

Payment for the Additional Securities shall be made by certified or official bank check in clearing house funds payable to the order of the Company at the offices of the Representative, or at such other place in Denver, Colorado as you shall determine and advise the Company by at least two full days' notice in writing, upon delivery of certificates representing the Additional Securities to you.

Certificates for the Common Stock and Warrants and any Additional Securities purchased shall be registered in such name or names and in such authorized denominations as you may request in writing at least two full business days prior to the Closing Date or Additional Closing Date, as applicable. The Company shall permit you to examine and package such certificates for delivery at least one full business day prior to any such closing with respect thereto.

If for any reason one or more Underwriters shall fail or refuse (otherwise than for a reason sufficient to justify the termination of this Agreement under the provisions of Section 10 hereof) to purchase and pay for the number of shares of Common Stock and Warrants agreed to be purchased by such Underwriter, the Company shall immediately give notice thereof to the Representative, and the non-defaulting Underwriters shall have the right within 24 hours after the receipt by the Representative of such notice, to purchase or procure one or more other Underwriters to purchase, in such proportions as may be agreed upon among the Representative and such purchasing Underwriter or Underwriters and upon the terms herein set forth, the Common Stock and Warrants which such defaulting Underwriter or Underwriters agreed to

purchase. If the non-defaulting Underwriters fail so to make such arrangements with respect to all such Common Stock and Warrants, the number of shares of Common Stock and Warrants which each non-defaulting Underwriter is otherwise obligated to purchase under the Agreement shall be automatically increased pro rata to absorb the remaining Common Stock and Warrants which the defaulting Underwriter or Underwriters agreed to purchase; provided, however, that the non-defaulting Underwriters shall not be obligated to purchase the Common Stock and Warrants which the defaulting Underwriter or Underwriters agreed to purchase in excess of 10% of the total number of shares of Common Stock and Warrants which such non-defaulting Underwriter agreed to purchase hereunder, and provided further that the non-defaulting Underwriters shall not be obligated to purchase any Common Stock and Warrants which the defaulting Underwriter or Underwriters agreed to purchase if such additional purchase would cause the Underwriter to be in violation of the net capital rule of the Commission or other applicable law. If the total number of shares of Common Stock and Warrants which the defaulting Underwriter or Underwriters agreed to purchase shall not be purchased or absorbed in accordance with the two preceding sentences, the Company shall have the right, within the 24 hours next succeeding the 24-hour period above referred to, to make arrangements with other underwriters or purchasers satisfactory to the Representative for the purchase of such Common Stock and Warrants on the terms herein set forth. In any such case, either the Representative or the Company shall have the right to postpone the Closing for not more than seven business days after the date originally fixed as the Closing in order for any necessary changes in the Registration Statement, the Prospectus or any other documents or arrangements to be made. If neither the non-defaulting Underwriters nor the Company shall make arrangements within the 24-hour periods stated above for the purchase of all the Common Stock and Warrants which the defaulting Underwriter or Underwriters agreed to purchase hereunder, this Agreement shall be terminated without further act or deed and without any liability on the part of the Company to any non-defaulting Underwriter, except the Company shall be liable for actual expenses incurred by the Representative as provided in Section 10 hereof, and without any liability on the part of any non-defaulting Underwriter to the Company.

Nothing contained herein shall relieve any defaulting Underwriter of its liability, if any, to the Company or to the remaining Underwriters for damages occasioned by its default hereunder.

4. Offering. The Underwriters are to make a public offering of the Common Stock and Warrants as soon, on or after the effective date of the Registration Statement, as the Representative deems it advisable so to do. The Common Stock and Warrants are to be initially offered to the public at the initial public offering prices as provided for in Section 3 (such prices being herein called the "public offering prices"). After the initial public offering, you may from time to time increase or decrease the prices of the Common Stock and/or Warrants, in your sole discretion, by reason of changes in general market conditions or otherwise.

5. Covenants of the Company. The Company covenants that it will:

a. Use its best efforts to cause the Registration Statement to become effective as promptly as possible. If the Registration Statement has become or becomes effective with a form of Prospectus omitting certain information pursuant to Rule 430A of the Regulations, or filing of the Prospectus is otherwise required under Rule 424(b), the Company will file the Prospectus, properly completed, pursuant to Rule 424(b) within the time period prescribed and will provide evidence satisfactory to you of such timely filing.

b. Notify you immediately, and confirm such notice in writing, (i) when the Registration Statement and any post-effective amendment thereto become effective, (ii) of the receipt of any comments from the Commission or the "blue sky" or securities authority of any jurisdiction regarding the Registration Statement, any post-effective amendment thereto, the Prospectus, or any amendment or supplement thereto, and (iii) of the receipt of any notification with respect to a Stop Order or the initiation or threatening of any proceeding with respect to a Stop Order. The Company will use its best efforts to prevent the issuance of any Stop Order and, if any Stop Order is issued, to obtain the lifting thereof as promptly as possible.

c. During the time when a prospectus relating to the Common Stock and Warrants or the Additional Securities is required to be delivered hereunder or under the Act or the Regulations, comply so far as it is able with all requirements imposed upon it by the Act, as now existing and as hereafter amended, and by the Regulations, as from

time to time in force, so far as necessary to permit the continuance of sales of or dealings in the Common Stock and Warrants and Additional Securities in accordance with the provisions hereof and the Prospectus. If, at any time when a prospectus relating to the Common Stock and Warrants or Additional Securities is required to be delivered hereunder or under the Act or the Regulations, any event shall have occurred as a result of which, in the reasonable opinion of counsel for the Company or counsel for the Representative, the Registration Statement or the Prospectus, as then amended or supplemented, contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or if, in the opinion of either of such counsel, it is necessary at any time to amend or supplement the Registration Statement or the Prospectus to comply with the Act or the Regulations, the Company will immediately notify you and promptly prepare and file with the Commission an appropriate amendment or supplement (in form and substance satisfactory to you) which will correct such statement or omission or which will effect such compliance and will use its best efforts to have any such amendment declared effective as soon as possible.

d. Deliver without charge to you such number of copies of each Preliminary Prospectus as you may reasonably request and, as soon as the Registration Statement or any amendment thereto becomes effective or a supplement is filed, deliver without charge to you two signed copies of the Registration Statement or such amendment thereto, as the case may be, including exhibits, and two copies of any supplement thereto, and deliver without charge to you such number of copies of the Prospectus, the Registration Statement, and amendments and supplements thereto, if any, without exhibits, as you may reasonably request for the purposes contemplated by the Act.

e. Endeavor in good faith, in cooperation with you, at or prior to the time the Registration Statement becomes effective, to qualify the Common Stock and Warrants and Additional Securities for offering and sale under the "blue sky" or securities laws of such jurisdictions as you reasonably may designate; provided, however, that no such qualification shall be required in any jurisdiction where, as a result thereof, the Company would be subject to service of general process or to taxation as a foreign corporation

doing business in such jurisdiction to which it is not then subject. In each jurisdiction where such qualification shall be effected, the Company will, unless you agree in writing that such action is not at the time necessary or advisable, file and make such statements or reports at such times as are or may be required by the laws of such jurisdiction.

f. Make generally available (within the meaning of Section 11 (a) of the Act and the Regulations) to its security holders as soon as practicable, but not later than fifteen (15) months after the date of the Prospectus, an earnings statement (which need not be certified by independent certified public accountants unless required by the Act or the Regulations, but which shall satisfy the provisions of Section 11(a) of the Act and the Regulations) covering a period of at least 12 months beginning after the effective date of the Registration Statement.

g. For a period of 12 months after the date of the Prospectus, not, without your prior written consent, offer, issue, sell, contract to sell, grant any option for the sale of, or otherwise dispose of, directly or indirectly, any shares of Common Stock (or any security or other instrument which by its terms is convertible into, exercisable for, or exchangeable for shares of Common Stock) except as provided in Section 3 and except for (i) the issuance of Warrant Shares issuable upon the exercise of Warrants or issuance of Common Stock underlying options or warrants outstanding on the date hereof, (ii) the issuance of shares underlying the Representative's Options, (iii) the issuance of Common Stock upon conversion of Convertible Preferred Stock, or (iv) the grant of options pursuant to the Company's existing stock option plan.

h. For a period of five years after the Effective Date of the Registration Statement, furnish you, without charge, the following:

i. Within 90 days after the end of each fiscal year, three copies of consolidated financial statements certified by independent certified public accountants, including a balance sheet, statement of operations, and statement of cash flows of the Company and its then existing subsidiaries, with supporting schedules, prepared in accordance with generally accepted accounting principles, at the end of such fiscal year and for the 12 months then ended;

ii. As soon as practicable after they have been sent to stockholders of the Company or filed with the Commission, three copies of each annual and interim financial and other report or communication sent by the Company to its stockholders or filed with the Commission;

iii. As soon as practicable, two copies of every press release and every material news item and article in respect of the Company or its affairs which was released by the Company;

iv. Notice of any regular quarterly or special meeting of the Company's Board of Directors concurrently with the sending of such notice to the Company's directors; and

v. Such additional documents and information with respect to the Company and its affairs and the affairs of any of its subsidiaries as you may from time to time reasonably request.

i. Designate an Audit Committee and a Compensation Committee, the members of which shall be subject to your reasonable approval, which will generally supervise the financial affairs of the Company and review executive compensation, respectively.

j. Furnish to you as early as practicable prior to the Closing Date and any Additional Closing Date, as the case may be, but not less than two full business days prior thereto, a copy of the latest available unaudited interim consolidated financial statements of the Company which have been read by the Company's independent certified public accountants, as stated in their letters to be furnished pursuant to Section 7(e).

k. File no amendment or supplement to the Registration Statement or Prospectus at any time, whether before or after the Effective Date of the Registration Statement, unless such filing shall comply with the Act and the Regulations and unless you shall previously have been advised of such filing and furnished with a copy thereof, and you and counsel for the Representative shall have approved such filing in writing within a reasonable time of receipt thereof.

l. Comply with all periodic reporting and proxy solicitation requirements which may from time to time be applicable to the Company as a result of the Company's

registration under the Exchange Act on a Registration Statement on Form 8-A as required under Section 7(a) hereof.

m. Comply with all provisions of all undertakings contained in the Registration Statement.

n. Prior to the Closing Date or any Additional Closing Date, as the case may be, issue no press release or other communication, directly or indirectly, and hold no press conference and grant no interviews with respect to the Company, the financial condition, results of operations, business, properties, assets, or liabilities of the Company, or this offering, without your prior written consent.

o. File timely with the Commission or the American Stock Exchange all reports required to be filed.

p. On or prior to the Closing Date, sell to the Representative for a total purchase price of $100, Representative's Options entitling the Representative or its assigns to purchase (i) 165,000 shares of Common Stock at a price equal to 120% of the public offering price of the Common Stock, and (ii) 165,000 Warrants at a price equal to 120% of the public offering price of the Warrants, with the terms of the Representative's Options, including exercise period, anti-dilution provisions, exercise price, exercise provisions, transferability, and registration rights, to be in the form filed as an exhibit to the Registration Statement.

q. Until expiration of the Representative's Options, keep reserved sufficient shares of Common Stock for issuance upon exercise of the Representative's Options, and shares of Common Stock for issuance upon exercise of the warrants contained in the Representative's Options.

r. For a period of three years from the effective date of the Registration Statement, the Representative shall have a right of first refusal to act as the Company's investment banker with respect to any future public offerings and/or private offerings involving securities of the Company or any of its subsidiaries or mergers, acquisitions, and/or business combinations involving the Company or any of its subsidiaries. The right shall continue in effect during the entire three-year period despite the exercise of the right

or the refusal to exercise the right during the period. The Representative shall have 15 calendar days in which to accept such offer.

s. Upon the Closing Date, engage a financial public relations firm acceptable to the Representative to assist the Company in preparing regular announcements and disseminating such information to the financial community, such engagement to extend for four consecutive six month terms; provided the Representative shall have the right to approve the public relations firm before the renewal of any six-month term.

t. Adopt procedures for the application of the net proceeds the Company receives from the sale of the Common Stock and Warrants and apply the net proceeds from the sale of the Common Stock and Warrants substantially in the manner set forth in the Prospectus, which does not contemplate repayment of debt to officers, directors, stockholders or affiliates of the Company, unless any deviation from such application is in accordance with the Prospectus and occurs only after approval by the Board of Directors of the Company and then only after the Board of Directors has obtained the written opinion of recognized legal counsel experienced in federal and state securities laws as to the propriety of any such deviation.

u. Within the time period which the Prospectus is required to be delivered under the Act, comply, at its own expense, with all requirements imposed upon it by the Act, as now or hereafter amended, by the Rules and Regulations, as from time to time may be enforced, and by any order of the Commission, so far as necessary to permit the continuance of sales or dealing in the Common Stock and Warrants.

v. At the Closing, deliver to the Representative true and correct copies of the Articles of Incorporation of the Company and all amendments thereto, all such copies to be certified by the Secretary of the Company; true and correct copies of the by-laws of the Company and of the minutes of all meetings of the directors and stockholders of the Company held prior to the Closing which in any way relate to the subject matter of this Agreement or the Registration Statement.

w. Use all reasonable efforts to comply or cause to be complied with the conditions precedent to the several obligations of the Underwriters in Section 7 hereof.

x. File with the Commission all required information concerning use of proceeds of the Public Offering in Forms 10-QSB and 10-KSB in accordance with the provisions of the Act and to provide a copy of such reports to the Representative and its counsel.

y. Supply to the Representative and the Representative's counsel at the Company's cost, two bound volumes each containing material documents relating to the offering of the Common Stock and Warrants within a reasonable time after the Closing, not to exceed 90 days.

z. As soon as possible prior to the Effective Date, and as a condition of the Underwriter's obligations hereunder, (i) have the Company listed on an accelerated basis, and maintain such listing for not less than five years from the Closing Date, in Standard & Poor's Standard Corporation Records; (ii) have the Common Stock and Warrants quoted on The American Stock Exchange as of the Effective Date, on the Closing Date, on the Additional Closing Date and thereafter for at least five years provided the Company is in compliance with The American Stock Exchange maintenance requirements; and (iii) have appointed Computershare Trust Company, Inc. in Denver, Colorado or a firm acceptable to the Representative as its transfer agent, subject to competitive pricing.

aa. As soon as possible prior to the Effective Date and at such time as the Company qualifies for listing on the American Stock Exchange, take all steps necessary to have the Company's Common Stock and Warrants, to the extent eligible, listed on the American Stock Exchange.

bb. Continue, for a period of at least three years following the Effective Date of the Registration Statement, to appoint such auditors as are reasonably acceptable to the Representative, which auditors shall (i) prepare consolidated financial statements in accordance with Regulation S-B or, if applicable, Regulation S-X under the General Rules and Regulations of the Act and (ii) examine (but not audit) the Company's consolidated financial statements for each of the first three (3) fiscal quarters prior to the announcement of quarterly financial information, the filing of the Company's 10-QSB quarterly report and the mailing of quarterly financial information to security holders.

cc. Upon the Effective Date of the Registration Statement, obtain "key man" life insurance policies in the amount of $1,000,000 on the lives of certain key employees designated by the Representative, with the Company designated as the beneficiary of such policy, and pay the annual premiums thereon for a period of not less than three years from the Effective Date of the Registration Statement.

dd. Cause its transfer agent to furnish the Representative a duplicate copy of the daily transfer sheets prepared by the transfer agent during the six-month period commencing on the Effective Date of the Registration Statement and instruct the transfer agent to timely provide, upon the request of the Representative, duplicate copies of such transfer sheets and/or a duplicate copy of a list of stockholders, all at the Company's expense, for a period of 4 1/2 years after such six-month period.

ee. On the Closing Date, enter into a Consulting Agreement with the Representative whereby the Company will agree to pay the Representative a financial consulting fee of $3,000 per month for the succeeding 24 month period.

ff. Afford the Representative the right, but not the obligation, commencing on the Effective Date and surviving for a period of three years, to designate an observer to attend meetings of the Board of Directors. The designee, if any, and the Representative will receive notice of each meeting of the Board of Directors in accordance with Colorado law. Any such designee will receive reimbursement for all reasonable costs and expenses incurred in attending meetings of the Board of Directors, including but not limited to, food, lodging and transportation, together with such other fee or such compensation as is paid by the Company to the highest compensated outside member of the Board of Directors. Moreover, to the extent permitted by law, the Representative and its designee shall be indemnified for the actions of such designee as an observer to the Board of Directors and in the event the Company maintains a liability insurance policy affording coverage for the acts of its officers and/or directors, to the extent permitted under such policy, each of the Representative and its designee shall be an insured under such policy. During the stated three-year period, the Representative's adviser to the Company's Board of Directors will be (i) invited to attend meetings of the Company's Board of Directors; (ii) provided with a copy of all Actions by Unanimous Written consent of the Board of

Directors in lieu of an actual meeting; (iii) furnished with a copy of all public filings by the Company and Company press releases as released; (iv) updated by the Company's management on at least a quarterly basis, regarding the Company's activities, prospects and financial condition; and (v) advised immediately of material events to the extent consistent with applicable law. During the subject three-year period, the Company will hold meetings of its Board of Directors at intervals of not less than 90 days. Any adviser designated by the Representative, as herein provided, shall be acceptable to the Company, which acceptance shall not be unreasonably withheld, and such designated adviser shall make certain representations in writing to the Company concerning his responsibilities under the federal securities laws with respect to information obtained by such adviser as a result of his attendance at meetings of the Board of Directors of the Company and as a result of the receipt by him of other nonpublic information concerning the Company. It is currently anticipated that the Representative will request Anthony B. Petrelli to be appointed as Board adviser.

6. Payment of Expenses. The Company hereby agrees to pay all expenses (subject to the last sentence of this Section 6) in connection with the offering, including but not limited to (a) the preparation, printing, filing, distribution, and mailing of the Registration Statement and the Prospectus, including SEC and American Stock Exchange filing and/or application fees, and the printing, filing, distribution, and mailing of this Agreement, any Agreement Among Underwriters, Selected Dealers Agreement, preliminary and final Blue Sky Memorandums, material to be circulated to the Underwriters by you and other incidental or related documents, including the cost of all copies thereof and of the Preliminary Prospectuses and of the Prospectus, and any amendments or supplements thereto, supplied to the Representative in quantities as hereinabove stated, (b) the issuance, sale, transfer, and delivery of the Common Stock and Warrants, the Additional Securities, the Warrant Shares and the Representative's Options, including, without limitation, any original issue, transfer or other taxes payable thereon and the costs of preparation, printing and delivery of certificates representing such securities, as applicable, (c) the qualification of the Common Stock and Warrants, Additional Securities, Warrant Shares and the Representative's Options under state or foreign "blue sky" or securities laws, (d) the fees and disbursements of counsel for the Company and the accountants for the

Company, (e) the listing of the Common Stock and Warrants on the American Stock Exchange, and (f) a Representative's non-accountable expense allowance equal to 3% of the aggregate gross proceeds from the sale of the Common Stock and Warrants and the Additional Securities. Prior to or immediately following the Closing Date, the Company shall bear the costs of tombstone announcements not to exceed $4,000, if requested to do so by the Representative. The Company shall pay all expenses incurred in connection with any road shows.

The Company has previously remitted to the Representative the sum of $40,000, which sum has been credited as a partial payment in advance of the non-accountable expense allowance provided for in Section 6(f) above.

7. Conditions of Underwriters' Obligations. The Underwriters' obligation to purchase and pay for the Common Stock and Warrants and the Additional Securities, as provided herein, shall be subject to the continuing accuracy of the representations and warranties of the Company contained herein and in each certificate and document contemplated under this Agreement to be delivered to you, as of the date hereof and as of the Closing Date (or the Additional Closing Date, as the case may be), to the performance by the Company of its obligations hereunder, and to the following conditions:

a. The Registration Statement shall have become effective under the Securities Act of 1933, and the Company's Common Stock and Warrants shall have been registered under Section 12(g) of the Securities Exchange Act of 1934, not later than 5:00 p.m., local Denver time, on the date of this Agreement or such later date and time as shall be consented to in writing by you.

b. At the Closing Date and any Additional Closing Date, you shall have received the favorable opinion of Dorsey & Whitney LLP, counsel for the Company, dated the date of delivery, addressed to you, and in form and scope satisfactory to your counsel, to the effect that:

i. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Colorado, with corporate power to own, lease, license, and use its properties and assets and to conduct its business in the manner described in the Prospectus. The Company is duly qualified to do business as a foreign corporation and is in good standing in every jurisdiction in

which its ownership, leasing, licensing, or use of property and assets or the conduct of its business makes such qualification necessary, except where the failure to be so qualified would not preclude it from enforcing its rights with respect to any material contract or expose it to any material liability;

ii. The authorized capital stock of the Company as of the date of this Agreement consisted of 30,000,000 shares of Common Stock, of which __________ shares of Common Stock are issued and outstanding, _______ shares of Common Stock are reserved for issuance upon the exercise or conversion of outstanding options, warrants and Convertible Preferred Stock; __________ shares of Common Stock are reserved for issuance upon the exercise of the remaining options authorized under the Company's option plan; and 5,000,000 shares of preferred stock, of which __________ shares of Convertible Preferred Stock are issued and outstanding. Each outstanding share of capital stock has been duly authorized, validly issued and fully paid and is nonassessable. Based upon a written inquiry to the Company and a review of the records of the Company in counsel's possession, counsel is not aware of any (i) commitment, plan, or arrangement to issue, or of an outstanding option, warrant, or other right calling for the issuance of, any share of capital stock of the Company or any security or other instrument which by its terms is convertible into, exercisable for, or exchangeable for capital stock of the Company, except as set forth above, and except as is properly described in the Prospectus or (ii) any outstanding security or other instrument which by its terms is convertible into or exchangeable for capital stock of the Company, except as described in the Prospectus;

iii. Based upon a written inquiry to the Company and a review of the records of the Company in counsel's possession, counsel is not aware that there is any litigation, arbitration, claim, governmental or other proceeding (formal or informal), or investigation pending, threatened, or in prospect (or any basis therefor) with respect to the Company or any of its respective operations, businesses, properties, or assets, except as may be properly described in the Prospectus or such as individually or in the aggregate do not now have and will

not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company. Based upon a written inquiry to the Company and a review of the records of the Company in counsel's possession, counsel is not aware of any violation of, or that the Company is in default with respect to, any law, rule, regulation, order, judgment, or decree, except as may be properly described in the Prospectus or such as in the aggregate have been disclosed to the Representative and do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company; nor is counsel aware that the Company is required to take any action in order to avoid any such violation or default;

iv. Neither the Company nor any other party is now or is expected by the Company to be in violation or breach of, or in default with respect to, complying with any material provision of any contract, agreement, instrument, lease, license, arrangement, or understanding which is material to the Company;

v. The Company is not in violation or breach of, or in default with respect to, any term of its Articles of Incorporation or by-laws;

vi. The Company has all requisite corporate power and authority to execute and deliver and to perform under this Agreement, the Warrants, the Representative's Option and the Consulting Agreement. All necessary corporate proceedings of the Company have been taken to authorize the execution and delivery and performance thereunder by the Company of this Agreement, the Warrants, the Representative's Options and the Consulting Agreement. Each of this Agreement, the Warrants, the Representative's Options and the Consulting Agreement have been duly authorized, executed and delivered by the Company, and is a legal, valid, and binding obligation of the Company, and (subject to applicable bankruptcy, insolvency, and other laws affecting the enforceability of creditors' rights generally and equitable principles that may limit the enforceability of certain terms, including concepts of mutuality, responsibility, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally), enforceable as to the Company in accordance with their

respective terms. No opinion need be given, however, to the enforceability of any indemnity provisions, forum selection clauses or arbitration clauses. No consent, authorization, approval, order, license, certificate, or permit of or from, or declaration or filing with, any federal, state, local, or other governmental authority or any court or other tribunal is required by the Company for the execution or delivery, or performance thereunder by the Company of this Agreement, the Warrants, Representative's Options and the Consulting Agreement (except filings under the Act which have been made prior to the Closing Date and consents consisting only of consents under "blue sky" or securities laws which are required in connection with the transactions contemplated by this Agreement, and which have been obtained on or prior to the date the Registration Statement becomes effective under the Act). No consent of any party to any contract, agreement, instrument, lease, license, arrangement, or understanding to which the Company is a party, or to which any of its properties or assets are subject, is required for the execution or delivery, or performance thereunder of this Agreement, the Warrants, the Representative's Options or the Consulting Agreement; and the execution and delivery and performance thereunder of this Agreement, the Warrants, the Representative's Options and the Consulting Agreement will not violate, result in a breach of, conflict with, or (with or without the giving of notice or the passage of time or both) entitle any party to terminate or call a default under any such contract, agreement, instrument, lease, license, arrangement, or understanding, or violate or result in a breach of any term of the Articles of Incorporation or by-laws of the Company, or violate, result in a breach of, or conflict with any law, rule, regulation, order, judgment, or decree binding on the Company or to which any of its operations, businesses, properties, or assets are subject;

vii. The shares of Common Stock are, the shares of Common Stock issuable on exercise of the Warrants will be, and the shares of Common Stock underlying the Representative's Options will be upon exercise of the Representative's Options and upon issuance, delivery and payment therefor as described in the Registration Statement, validly authorized, validly issued, fully

paid, and nonassessable and not issued in violation of any preemptive rights of stockholders of the Company, and the Underwriters will have received good title to the Common Stock and Warrants and Additional Securities purchased by them from the Company, free and clear of all liens, security interests, pledges, charges, encumbrances, stockholders' agreements, and voting trusts; upon payment for the Warrant Shares and the Representative's Options, the holders thereof will receive good title to such securities, free and clear of all liens, security interests, pledges, charges, encumbrances, stockholders' agreement and voting trusts. The Common Stock, the Warrants, the Warrant Shares and the Representative's Options conform to all statements relating thereto contained in the Registration Statement or the Prospectus;

viii. The Warrant Shares have been duly and validly reserved for issuance pursuant to the terms of the Warrant Agreement between the Company and its transfer agent and shares of Common Stock underlying the Representative's Options have been duly and validly reserved for issuance pursuant to the terms of the Representative's Options or the Warrant Agreement, as the case may be;

ix. Any contract, agreement, instrument, lease, or license that is known to counsel and that is required to be described in the Registration Statement or the Prospectus has been properly described therein. Any contract, agreement, instrument, lease, or license that is known to counsel and that is required to be filed as an exhibit to the Registration Statement has been filed with the Commission as an exhibit to or has been incorporated as an exhibit by reference into the Registration Statement;

x. Insofar as statements in the Prospectus purport to summarize the status of litigation or the provisions of laws, rules, regulations, orders, judgments, decrees, contracts, agreements, instruments, leases, or licenses, such statements have been prepared or reviewed by such counsel and accurately reflect the status of such litigation and provisions purported to be summarized and are correct in all material respects;

xi. Except as provided in the Registration Statement, no person or entity has the right to require registration of shares of Common Stock or other securities of the Company because of the filing or effectiveness of the Registration Statement;

xii. The Registration Statement has been declared effective under the Act. No Stop Order has been issued and no proceedings for that purpose have been instituted or threatened, and the Company's Common Stock and Warrants have been registered under the Securities Exchange Act of 1934;

xiii. The Registration Statement and the Prospectus, and any amendment or supplement thereto, comply as to form in all material respects with the requirements of the Act and the Regulations;

xiv Such counsel has no reason to believe that either the Registration Statement or the Prospectus, or any amendment or supplement thereto, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading (except that no opinion need be expressed as to the consolidated financial statements and other financial data and schedules which are or should be contained therein);

xv. Since the Effective Date of the Registration Statement, such counsel has not been informed of any event which has occurred which should have been set forth in an amendment or supplement to the Registration Statement or the Prospectus has been set forth in such an amendment or supplement;

xvi. The Company has not informed counsel that the Company is currently offering any securities for sale except as described in the Registration Statement;

xvii. Such counsel has no knowledge of any promoter, affiliate, parent or subsidiaries of the Company except as are described in the Registration Statement;

xviii. Counsel has no knowledge of any subsidiaries of the Company except as described in the Registration Statement;

xix. Such counsel has not been informed that Company is a party to any agreement giving rise to any obligation by the Company or any subsidiary to pay any third-party royalties or fees of any kind whatsoever with respect to any technology developed, employed, used or licensed by the Company or any subsidiary, other than is disclosed in the Prospectus;

xx. The Common Stock and Warrants are eligible for quotation on The American Stock Exchange;

xxi. Such counsel has no reason to believe that issued and outstanding shares of Common Stock and all other securities issued and sold or exchanged by the Company or its subsidiaries have not been issued and sold or exchanged in compliance with all applicable state and federal securities laws and regulations; and

xxii. Such counsel has not been informed that Company or any of its Property are not in compliance with any Environmental Laws or that the Company is not in full compliance with all permits, licenses and authorizations relating to Environmental Laws.

In rendering such opinion, counsel for the Company may rely (A) as to matters involving the application of laws other than the laws of the United States and the laws of the State of Colorado, to the extent counsel for the Company deems proper and to the extent specified in such opinion, upon an opinion or opinions (in form and substance satisfactory to counsel for the Representative) of other counsel, acceptable to counsel for the Representative, familiar with the applicable laws, in which case the opinion of counsel for the Company shall state that the opinion or opinions of such other counsel are satisfactory in scope, form, and substance to counsel for the Company and that reliance thereon by counsel for the Company is reasonable; (B) as to matters of fact, to the extent the Representative deems proper, on certificates of responsible officers of the Company; and (C) to the extent they deem proper, upon written statements or certificates of officers of departments of various jurisdictions having custody of documents respecting the corporate existence or good standing of the Company, provided that copies of any such statements or certificates shall be delivered to counsel for the Representative.

c. On or prior to the Closing Date and any Additional Closing Date, as the case may be, you shall have been furnished such information, documents, certificates, and opinions as you may reasonably require for the purpose of enabling you to review the matters referred to in Section 7(b), and in order to evidence the accuracy, completeness, or satisfaction of any of the representations, warranties, covenants, agreements, or conditions herein contained, or as you may reasonably request.

d. At the Closing Date and any Additional Closing Date, as the case may be, you shall have received a certificate of the chief executive officer and of the chief financial officer of the Company, dated the Closing Date or such Additional Closing Date, as the case may be, to the effect that the conditions set forth in Section 7(a) have been satisfied, that as of the date of this Agreement and as of the Closing Date or such Additional Closing Date, as the case may be, the representations and warranties of the Company contained herein were and are accurate, and that as of the Closing Date or such Additional Closing Date, as the case may be, the obligations to be performed by the Company hereunder on or prior thereto have been fully performed.

e. At the time this Agreement is executed and at the Closing Date and any Additional Closing Date, as the case may be, you shall have received a letter from HEIN + ASSOCIATES, LLP, Certified Public Accountants, addressed to you and dated the date of delivery but covering a period within three business days of such date, in form and substance satisfactory to you.

f. All proceedings taken in connection with the issuance, sale, transfer, and delivery of the Common Stock and Warrants and the Additional Securities shall be satisfactory in form and substance to you and to counsel for the Representative, and you shall have received a favorable opinion from counsel to the Company, dated as of the Closing Date or the Additional Closing Date, as the case may be, with respect to such of the matters set forth under Section 7(b), and with respect to such other related matters, as you may reasonably request.

g. The American Stock Exchange, upon review of the terms of the public offering of the Common Stock and Warrants and the Additional Securities, shall not have objected to your participation in such offering.

h. The Company shall have received notice that the Common Stock and Warrants will be quoted on the American Stock Exchange as of the Effective Date.

Any certificate or other document signed by any officer of the Company and delivered to you or to counsel for the Representative shall be deemed a representation and warranty by the Company hereunder to the Representative as to the statements made therein. If any condition to your obligations hereunder to be fulfilled prior to or at the Closing Date or any Additional Closing Date, as the case may be, is not so fulfilled, you may terminate this Agreement or, if you so elect, in writing waive any such conditions which have not been fulfilled or extend the time for their fulfillment.

8. Indemnification and Contribution.

a. Subject to the conditions set forth below, the Company agrees to indemnify and hold harmless the Underwriters, the Representative, and each of their officers, directors, partners, employees, agents, and counsel, and each person, if any, who controls the Representative or any one of the Underwriters within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against any and all loss, liability, claim, damage, and expense whatsoever (which shall include, for all purposes of this Section 8, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever and any and all amounts paid in settlement of any claim or litigation) as and when incurred arising out of, based upon, or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained (A) in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or (B) in any application or other document or communication (in this Section 8 collectively called an "application") in any jurisdiction in order to qualify the Common Stock and Warrants and Additional Securities under the "blue sky" or securities laws thereof or filed with the Commission or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any breach of any representation, warranty, covenant, or agreement of the Company contained in this Agreement. The foregoing agreement to indemnify shall

be in addition to any liability the Company may otherwise have, including liabilities arising under this Agreement; however, the Company shall have no liability under this Section 8 if such statement or omission was made in reliance upon and in conformity with written information furnished to the Company as stated in Section 8(b) with respect to the Underwriters by or on behalf of the Underwriters expressly for inclusion in any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or in any application, as the case may be.

If any action is brought against the Underwriters, the Representative or any of their officers, directors, partners, employees, agents, or counsel, or any controlling persons of an Underwriter or the Representative (an "indemnified party") in respect of which indemnity may be sought against the Company pursuant to the foregoing paragraph, such indemnified party or parties shall promptly notify the Company in writing of the institution of such action (but the failure so to notify shall not relieve the Company from any liability it may have other than pursuant to this Section 8(a)) and the Company shall promptly assume the defense of such action, including the employment of counsel (satisfactory to such indemnified party or parties) and payment of expenses. Such indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have promptly employed counsel satisfactory to such indemnified party or parties to have charge of the defense of such action or such indemnified party or parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other indemnified parties which are different from or additional to those available to the Company, in any of which events such fees and expenses shall be borne by the Company. Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent. The Company agrees promptly to notify the Underwriters and the Representative of the commencement of any litigation or proceedings against the Company or against any of its officers or directors in connection

with the sale of the Common Stock and Warrants or the Additional Securities, any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or any application.

b. The Underwriters agree to indemnify and hold harmless the Company, each director of the Company, each officer of the Company who shall have signed the Registration Statement, each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Underwriters in Section 8(a), but only with respect to statements or omissions, if any, made in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or in any application, in reliance upon and in conformity with written information furnished to the Company as stated in this Section 8(b) with respect to the Underwriters by or on behalf of the Underwriters expressly for inclusion in any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or in any application, as the case may be; provided, however, that the obligation of the Underwriters to provide indemnity under the provisions of this Section 8(b) shall be limited to the amount which represents the product of the number of shares of Common Stock and Warrants and Additional Securities sold hereunder and the initial public offering prices per share of Common Stock and Warrant set forth on the cover page of the Prospectus. For all purposes of this Agreement, the amounts of the selling concession and reallowance set forth in the Prospectus, the information under "Underwriting" and the identification of counsel to the Representative under "Legal Matters" constitute the only information furnished in writing by or on behalf of the Underwriters expressly for inclusion in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time amended or supplemented), or any amendment or supplement thereto, or in any application, as the case may be. If any action shall be brought against the Company or any other person so indemnified based on any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or any application, and in respect of which indemnity may be sought against the

Underwriters pursuant to this Section 8(b), the Underwriters shall have the rights and duties given to the Company, and the Company and each other person so indemnified shall have the rights and duties given to the indemnified parties, by the provisions of Section 8(a).

c. In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in this Section 8 is for any reason held to be unavailable to the Underwriters or the Company, then the Company shall contribute to the damages paid by the several Underwriters, and the several Underwriters shall contribute to the damages paid by the Company; provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. In determining the amount of contribution to which the respective parties are entitled, there shall be considered the relative benefits received by each party from the sale of the Common Stock and Warrants and Additional Securities (taking into account the portion of the proceeds of the offering realized by each), the parties' relative knowledge and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission, and any other equitable considerations appropriate in the circumstances. The Company and the Underwriters agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the Underwriters were treated as one entity for such purpose). No Underwriter or person controlling such Underwriter shall be obligated to make contribution hereunder which in the aggregate exceeds the total public offering price of the Common Stock and Warrants and Additional Securities purchased by such Underwriter under this Agreement, less the aggregate amount of any damages which such Underwriter and its controlling persons have otherwise been required to pay in respect of the same or any substantially similar claim. The Underwriters' obligations to contribute hereunder are several in proportion to their respective underwriting obligations and not joint. For purposes of this Section, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Act shall have the same rights to contribution as such Underwriter, and each director of the

Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the Act, shall have the same rights to contribution as the Company. Anything in this Section 8(c) to the contrary notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This Section 8(c) is intended to supersede any right to contribution under the Act, the Exchange Act, or otherwise.

9. Representations and Agreements to Survive Delivery. All representations, warranties, covenants, and agreements contained in this Agreement shall be deemed to be representations, warranties, covenants, and agreements at the Closing Date and any Additional Closing Date, and such representations, warranties, covenants, and agreements of the Underwriters and the Company, including the indemnity and contribution agreements contained in Section 8, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Representative, the Underwriters or any indemnified person, or by or on behalf of the Company or any person or entity which is entitled to be indemnified under Section 8(b), and shall survive termination of this Agreement or the delivery of the Common Stock and Warrants and the Additional Securities to the Underwriters for a period equal to the statute of limitations for claims related hereto, but not to exceed an aggregate of three years from the date hereof. In addition, the provisions of Sections 5(a), 6, 8, 9, 10, and 12 shall survive termination of this Agreement, whether such termination occurs before or after the Closing Date or any Additional Closing Date.

10. Effective Date of This Agreement and Termination Thereof.

a. This Agreement shall be executed within 24 hours of the Effective Date of the Registration Statement and shall become effective on the Effective Date or at the time of the initial public offering of the Common Stock and Warrants, whichever is earlier. The time of the initial public offering shall mean the time, after the Registration Statement becomes effective, of the release by the Representative for publication of the first newspaper advertisement which is subsequently published relating to the Common Stock and Warrants or the time, after the Registration Statement becomes effective, when the Common Stock and Warrants are first released by the Representative for offering by dealers by letter or telegram, whichever shall first occur. The Representative or the Company may prevent this Agreement from becoming effective without liability of any party to any other party, except as noted below in this Section 10, by giving the notice indicated in Section 10(c) before the time this Agreement becomes effective.

b. The Representative shall have the right to terminate this Agreement at any time prior to the Closing Date or any Additional Closing Date, as the case may be, by giving notice to the Company if there shall have been a general suspension of, or a general limitation on prices for, trading in securities on the New York Stock Exchange or the American Stock Exchange or in the over-the-counter market; or if there shall have been an outbreak of major hostilities or other national or international calamity, or terrorist activity, that causes significant disruption in the financial markets; or if a banking moratorium has been declared by a state or federal authority; or if a moratorium in foreign exchange trading by major international banks or persons has been declared; or if there shall have been a material interruption in the mail service or other means of communication within the United States; or if the Company shall have sustained a material or substantial loss by fire, flood, accident, hurricane, earthquake, theft, sabotage, or other calamity or malicious act which, whether or not such loss shall have been insured, will, in the Representative's opinion, make it inadvisable to proceed with the offering, sale, or delivery of the Common Stock and Warrants or the Additional Securities, as the case may be; or if there shall have been such material and adverse change in the market for securities in general so as to make it inadvisable to proceed with

the offering, sale, and delivery of the Common Stock and Warrants or the Additional Securities, as the case may be, on the terms contemplated by the Prospectus due to the impaired investment quality of the Common Stock and Warrants or the Additional Securities; or if the Dow Jones Industrial Average shall have fallen by 15% or more from its closing price on the day immediately preceding the date that the Registration Statement is declared effective by the Commission.

c. If the Representative elects to prevent this Agreement from becoming effective as provided in this Section 10, or to terminate this Agreement, it shall notify the Company promptly by telephone or facsimile, confirmed by letter. If, as so provided, the Company elects to prevent this Agreement from becoming effective, the Company shall notify the Representative promptly by telephone or facsimile, confirmed by letter.

d. Anything in this Agreement to the contrary notwithstanding other than Section 10(e), if this Agreement shall not become effective by reason of an election pursuant to this Section 10 or if this Agreement shall terminate or shall otherwise not be carried out prior to September 30, 2002 because (i) of any reason solely within the control of the Company or its stockholders and not due to the breach of any representation, warranty or covenant or bad faith of the Representative, (ii) the Company unilaterally withdraws the proposed Public Offering from the Representative in favor of another underwriter, (iii) the Company does not permit the Registration Statement to become effective for any reason other than if the Common Stock is proposed to be priced at less than $5.00 per share, in which event this provision will not apply, (iv) of any material discrepancy in any representation by the Company and/or its officers, directors, stockholders, agents, advisers or representatives, made in writing, including but not limited to the Registration Statement, to the Representative, (v) the Company is, directly and/or indirectly, negotiating with other persons or entities of whatsoever nature relating to a possible Public Offering of its securities, or (vi) of any failure on the part of the Company to perform any covenant or agreement or satisfy any condition of this Agreement by it to be performed or satisfied, then, in any of such events, the Company shall be obligated to reimburse the Representative for its out-of-pocket expenses on an accountable basis. Should the Representative be required to account for "out-of-pocket"

expenses, any expense incurred by the Representative shall be deemed to be reasonable and unobjectionable upon a reasonable showing by the Representative that such expenses were incurred, directly or indirectly, in connection with the proposed transaction and/or relationship of the parties hereto, as described herein. In no event will the Representative be entitled to reimbursement of accountable expenses exceeding $70,000, inclusive of the $40,000 advanced against the non-accountable expense allowance.

e. Notwithstanding any election hereunder or any termination of this Agreement, and whether or not this Agreement is otherwise carried out, the provisions of Sections 5(a), 6, 8, 9, and 10 shall not be in any way affected by such election or termination or failure to carry out the terms of this Agreement or any part hereof.

f. Anything in this Agreement to the contrary notwithstanding other than Sections 10(d) and (e), if this Agreement shall not be carried out within the time specified herein for any reason other than as set forth in Section 10(d), the Company shall have no liability to the Representative other than for the Representative's accountable expenses up to a maximum aggregate amount of $40,000, which amount has been paid in advance in accordance with Section 6 hereof.

11. Notices. All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing and, if sent to the Representative, shall be mailed, delivered, or sent by facsimile transmission and confirmed by original letter, to Neidiger, Tucker, Bruner, Inc., 1675 Larimer Street, Suite 300, Denver, Colorado 80202, Attention: Anthony B. Petrelli, with a copy to Samuel E. Wing, Jones & Keller, P.C., 1625 Broadway, Suite 1600, Denver, Colorado 80202; or if sent to the Company shall be mailed, delivered, or telexed or telegraphed and confirmed by letter, to Natural Gas Services Group, Inc., 2911 South County Road 1260, Midland, Texas 79706, Attention: Wayne L. Vinson, President, with a copy to Thomas S. Smith, Esq., Dorsey & Whitney LLP, 370 17th Street, Suite 4700, Denver, Colorado 80202. All notices hereunder shall be effective upon receipt by the party to which it is addressed.

12. Parties. This Agreement shall inure solely to the benefit of, and shall be binding upon, the Underwriters, the Company, and the persons and entities referred to in Section 8 who are entitled to indemnification or contribution, and their respective successors, legal representatives, and assigns (which shall not include any buyer, as such, of the Common Stock

and Warrants or the Additional Securities) and no other person shall have or be construed to have any legal or equitable right, remedy, or claim under or in respect of or by virtue of this Agreement or any provision herein contained.

13. Construction. This Agreement shall be construed in accordance with the laws of the State of Colorado, without giving effect to conflict of laws. Time is of the essence in this Agreement. The parties acknowledge that this Agreement was initially prepared by the Representative, and that all parties have read and negotiated the language used in this Agreement. The parties agree that, because all parties participated in negotiating and drafting this Agreement, no rule of construction shall apply to this Agreement which construes ambiguous language in favor of or against any party by reason of that party's role in drafting this Agreement.

If the foregoing correctly sets forth the understanding between us, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between us.

Very truly yours,

NATURAL GAS SERVICES
GROUP, INC.

By: ______________________________________
Wayne L. Vinson, President

Accepted as of the date first above written.
Denver, Colorado

NEIDIGER, TUCKER, BRUNER, INC.

By: ___________________________________
Anthony B. Petrelli, Vice President

NATURAL GAS SERVICES GROUP, INC.

(A COLORADO CORPORATION)

SCHEDULE 1

This Schedule sets forth the name of each Underwriter referred to in the Underwriting Agreement and the number of shares of Common Stock and Warrants to be sold by the Company.

NAME	NUMBER OF SHARES OF COMMON STOCK	NUMBER OF WARRANTS
Neidiger, Tucker, Bruner, Inc.		
Total	1,650,000	1,650,000

EXHIBIT 1.02

SELECTED DEALERS AGREEMENT

PUBLIC OFFERING OF
1,650,000 SHARES OF COMMON STOCK
1,650,000 REDEEMABLE WARRANTS
OFFERING PRICE OF $______ PER SHARE
AND $.25 PER WARRANT

NATURAL GAS SERVICES GROUP, INC.

JUNE ____, 2002

Neidiger/Tucker/Bruner, Inc., on behalf of itself and other underwriters (the "Underwriters") for which it is the representative (the "Representative"), has severally agreed with Natural Gas Services Group, Inc., a Colorado corporation (the "Company"), to purchase 1,650,000 shares (the "Firm Shares") of common stock (the "Common Stock") and 1,650,000 redeemable warrants (the "Firm Warrants"; together with the Firm Shares, the "Firm Securities") of the Company, and the Representative has been granted the right to purchase up to an additional 247,500 shares and/or warrants (the "Additional Securities") at its option for the sole purpose of covering over-allotments in the sale of the Firm Shares (the Firm Securities and Additional Securities being collectively referred to as the "Securities" or a "Security"). The Underwriters are offering the Securities to the public at an offering price of $_______ per Firm Share and $.25 per Firm Warrant. Although the Firm Shares and Firm Warrants are not being sold as Units, you must sell an equal number of both. Certain other capitalized terms used herein are defined in the Underwriting Agreement and are used herein as therein defined.

The Representative is offering the Securities to certain selected dealers (the "Selected Dealers"), when, as and if accepted by the Representative and subject to withdrawal, cancellation or modification of the offer without notice and further subject to the terms of (i) the Company's current Prospectus, (ii) the Underwriting Agreement, (iii) this Agreement, and (iv) the Representative's instructions which may be forwarded to the Selected Dealer from time to time. A copy of the Underwriting Agreement will be delivered to you forthwith for inspection or copying or both, upon your request therefor. This invitation is made by the Representative only if the Securities may be offered lawfully to dealers in your state.

The further terms and conditions of this invitation are as follows:

1. Acceptance of Orders. Orders received by the Representative from the Selected Dealer will be accepted only at the price, in the amounts and on the terms which are set forth in the Company's current Prospectus, subject to allotment in the Representative's uncontrolled discretion. The Representative reserves the right to reject any orders, in whole or in part.

2. Selling Concession. As a Selected Dealer, you will be allowed on all Securities purchased by you, which the Underwriters have not repurchased or contracted to repurchase prior to termination of this Agreement at or below the public offering price, a concession of _______% of the full 10% Underwriting discount, i.e., $_________ per Firm Share and $_____ per Firm Warrant as shown in the Company's current Prospectus. No selling concession will be allowed to any domestic broker-dealer who is not a member of the National Association of Securities Dealers, Inc. (the "Association"), or to any foreign broker-dealer eligible for membership in the Association who is not a member of the Association. Payment of such selling concession to you will be made only as provided in Section 4 hereof. After the Securities are released for sale to the public, the Representative is authorized to, and may, change the public offering price and the selling concession.

3. Reoffer of Securities. Securities purchased by you are to be bona fide reoffered by you in conformity with this Agreement and the terms of offering set forth in the Prospectus. You agree that you will not bid for, purchase, attempt to induce others to purchase, or sell, directly or indirectly, any Securities except as contemplated by this Agreement and except as a broker pursuant to unsolicited orders. You confirm that you have complied and agree that you will at all times comply with the provisions of Regulation M of the Securities Exchange Act of 1934, as amended (the "Exchange Act") applicable to this offering. In respect of Securities sold by you and thereafter purchased by the Representative at or below the public offering price prior to the termination of this Agreement as described hereinafter (or such longer period as may be necessary to cover any short position with respect to the offering), you agree at the

Representative's option either to repurchase the Securities at a price equal to the cost thereof to the Representative, including commissions and transfer taxes on redelivery, or to repay the Representative such part of your Selected Dealers' concessions on such Securities as the Representative designates.

4. Payment for Securities. Payment for the Securities purchased by you is to be made at the net Selected Dealers' price of $_____ per Firm Share and $_____ per Firm Warrant, at the offices of Neidiger/Tucker/Bruner, Inc., 1825 Lawrence Street, Suite 300, Denver, Colorado 80202, Denver, Colorado 80203, Attention: Syndicate Department, at such time and on such date as the Representative may designate, by certified or official bank check, payable in clearing house funds to the order of the Representative, against delivery of certificates for the Securities so purchased. If such payment is not made at such time and on such date, you agree to pay the Representative interest on such funds at the current interest rates. The Representative may in its discretion deliver the Securities purchased by you through the facilities of the Depository Trust Company or, if you are not a member, through your ordinary correspondent who is a member unless you promptly give the Representative written instructions otherwise.

5. Offering Representations. The Representative has been informed that a Registration Statement in respect of the Securities is expected to become effective under the Securities Act of 1933, as amended (the "Act"). You are not authorized to give any information or to make any representations other than those contained in the Prospectus or to act as agent for the Company or for the undersigned when offering the Securities to the public or otherwise.

6. Blue Sky. Neither the Representative nor the Underwriters assume any responsibility or obligations as to your right to sell the Securities in any jurisdiction, notwithstanding any information furnished in that connection. The Selected Dealer shall report in writing to the Representative the number of Securities which have been sold by it in each state and the number of transactions made in each such state. This state report shall be submitted to the Representative as soon as possible after completion of billing, but in any event not more than three days after the closing.

7. Dealer Undertakings. By accepting this Agreement, the Selected Dealer in offering and selling the Securities in the Public Offering (i) acknowledges its understanding of (a) the Conduct Rules (the "Rules") of the Association and the interpretations of such Rules promulgated by the Board of Governors of the Association (the "Interpretations") including, but not limited to the Rule and Interpretation with respect to "Free-Riding and Withholding" defined therein, (b) Rule 174 of the rules and regulations promulgated under the Act, (c) Regulation M promulgated under the Exchange Act, (d) Release No. 3907 under the Act, (e) Release No. 4150 under the Act, and (f) Sections 2410-2460 and 2710-2780 of the Rules and Interpretations thereunder, and (ii) represents, warrants, covenants and agrees that it shall comply with all applicable requirements of the Act and the Exchange Act in addition to the specific provisions cited in subparagraph (i) above and that it shall not violate, directly or indirectly, any provision of applicable law in connection with its participation in the Public Offering of the Securities.

8. Conditions of Public Offering. All sales shall be subject to delivery by the Company of certificates evidencing the Securities against payment therefor.

9. Failure of Order. If an order is rejected or if a payment is received which proves insufficient or worthless, any compensation paid to the Selected Dealer shall be returned by (i) restoration by the Representative to the Selected Dealer of the latter's remittance or (ii) a charge against the account of the Selected Dealer with the Representative, as the latter may elect without notice being given of such election.

10. Additional Representations, Covenants and Warranties of Selected Dealer. By accepting this Agreement, the Selected Dealer represents that it is registered as a broker-dealer under the Exchange Act; is qualified to act as a dealer in the states or the jurisdictions in which it shall offer the Securities; is a member in good standing of the Association; and shall maintain such registrations, qualifications and membership in full force and effect and in good standing throughout the term of this Agreement. If the Selected Dealer is not a member of the Association, it represents that it is a foreign dealer not registered under the Exchange Act and

agrees to make no sales within the United States, its territories or its possessions or to persons who are citizens thereof or residents therein, and in making any sales to comply with the Association's Rules and Interpretations with respect to Free-Riding and Withholding. Further, the Selected Dealer agrees to comply with all applicable federal laws including, but not limited to, the Act and Exchange Act and the rules and regulations of the Commission thereunder; the laws of the states or other jurisdictions in which Securities may be offered or sold by it; and the Constitution, Bylaws, and rules of the Association. Further, the Selected Dealer agrees that it will not offer or sell the Securities in any state or jurisdiction except those in which the Securities have been qualified or qualification is not required. The Selected Dealer acknowledges its understanding that it shall not be entitled to any compensation hereunder for any period during which it has been suspended or expelled from membership in the Association.

11. Employees and other Agents of the Selected Dealer. By accepting this Agreement, the Selected Dealer assumes full responsibility for thorough and proper training of its employees and other agents and representatives concerning the selling methods to be used in connection with the Public Offering of the Securities, giving special emphasis to the principles of full and fair disclosure to prospective investors and the prohibitions against "Free-Riding and Withholding" as set forth in Section 2110 of the Rules and the Interpretations thereunder.

12. Indemnification by the Company. The Company has agreed in Section 8 of the Underwriting Agreement to indemnify and hold harmless the Underwriters, the Representative and each person if any, who controls the Representative or any one of the Underwriters within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act against any and all loss, liability, claim, damage, and expense whatsoever (which shall include, for all purposes of Section 8 of the Underwriting Agreement, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever and any and all amounts paid in settlement of any claim or litigation) as and when incurred arising out of, based upon, or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained (A) in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time

amended and supplemented), or any amendment or supplement thereto, or (B) in any application or other document or communication (in the Underwriting Agreement collectively called an "application") in any jurisdiction in order to qualify the Securities under the "blue sky" or securities laws thereof or filed with the Commission or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any breach of any representation, warranty, covenant, or agreement of the Company contained in the Underwriting Agreement. The Representative has agreed to give the Company an opportunity and the right to participate in the defense or preparation of the defense of any action brought against the Representative, any Underwriter or any controlling person thereof to enforce any such loss, claim, demand, liability or expense. The agreement of the Company under this indemnity is conditioned upon notice of any such action having been promptly given by the indemnified party to the Company. Failure to notify the Company as provided in the Underwriting Agreement shall not relieve the Company of its liability which it may have to the Representative, the Underwriters, or any controlling person thereof other than pursuant to Section 8(a) of the Underwriting Agreement. This agreement is subject in all respects, especially insofar as the foregoing description of the indemnification provisions set forth in the Underwriting Agreement is concerned, to the terms and provisions of the Underwriting Agreement, a copy of which will be made available for inspection or copying or both to the Selected Dealer upon written request to the Representative therefor. The Selected Dealer acknowledges and confirms that, by signing a counterpart of this Agreement, it shall be deemed an agent of the Underwriters or a "Representative" for all purposes of Section 8 of the Underwriting Agreement, as expressly set forth therein.

13. Indemnification by the Selected Dealer. The Selected Dealer shall indemnify and hold harmless the Company, each director of the Company, each officer of the Company who shall have signed the Registration Statement, each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the indemnity from the Company to the Underwriters in Section 8(a) of the Underwriting Agreement, but only with respect to statements or omissions, if any, made in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time

amended and supplemented), or any amendment or supplement thereto, or in any application, in reliance upon and in conformity with information furnished to the Representative or the Company with respect to the Selected Dealer by or on behalf of the Selected Dealer expressly for inclusion in any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or in any application, as the case may be, or are based upon alleged misrepresentations or omissions to state material facts in connection with statements made by the Selected Dealer or the Selected Dealer's employees or other agents to the Company or the Representative orally or by any other means; provided, however, that the obligation of the Selected Dealer to provide indemnity hereunder shall be limited to the amount which represents the product of the number of Firm Securities and Additional Securities sold by the Selected Dealers and the initial public offering price per Security set forth on the cover page of the Prospectus. If any action shall be brought against the Company or any other person so indemnified in respect of which indemnity may be sought against the Selected Dealer pursuant to this provision, the Selected Dealer shall have the rights and duties given to the Company in the Underwriting Agreement, and the Company and each other person so indemnified shall have the rights and duties given to the indemnified parties, by the provisions of Section 8(a) of the Underwriting Agreement; and the Selected Dealer shall reimburse the Company and the Representative for any legal or other expenses reasonably incurred by them in connection with the investigation of or the defense of any such action or claim. The Representative shall, after receiving the first summons or other legal process disclosing the nature of the action being brought against it or the Company in any proceeding with respect to which indemnity may be sought by the Company or the Representative hereunder, notify promptly the Selected Dealer in writing of the commencement thereof; and the Selected Dealer shall be entitled to participate in (and, to the extent the Selected Dealer shall wish, to direct) the defense thereof at the expense of the Selected Dealer, but such defense shall be conducted by counsel satisfactory to the Company and the Representative. If the Selected Dealer shall fail to provide such defense, the Company or the Representative may defend such action at the cost and expense of the Selected Dealer. The Selected Dealer's obligation under this Section 13 shall survive any termination of this Agreement, the Underwriting Agreement and the delivery of and payment for the Securities under the Underwriting Agreement, and shall remain in full force and effect regardless of the

investigation made by or on behalf of any Representative within the meaning of Section 15 of the Act.

14. No Authority to Act as Partner or Agent. Nothing herein shall constitute the Selected Dealers as an association or other separate entity or partners with or agents of the Representative or with each other, but each Selected Dealer shall be responsible for its pro rata share of any liability or expense based upon any claims to the contrary. The Representative shall not be under any liability for or in respect of the value, validity or form of the Securities, or the delivery of certificates for the Securities or the performance by any person of any agreement on its part, or the qualification of the Securities for sale under the laws of any jurisdiction, or for or in respect of any matter in connection with this Agreement, except for lack of good faith and for obligations expressly assumed by the Representative in this Agreement.

15. Expenses. No expenses incurred in connection with offers and sales of the Securities under the Public Offering will be chargeable to the Selected Dealers. A single transfer tax, if any, on the sale of Securities by the Selected Dealer to its customers will be paid when such Securities are delivered to the Selected Dealer for delivery to its customers. Notwithstanding the foregoing, the Selected Dealer shall pay its proportionate share of any transfer tax or any other tax (other than the single transfer tax described above) if any such tax shall at any time be assessed against the Representative and other Selected Dealers.

16. Notices. All notices, demands or requests required or authorized hereunder shall be deemed given sufficiently if in writing and sent by registered or certified mail, return receipt requested and postage prepaid, or by tested telex, telegram, cable or facsimile to, in the case of the Representative, the address set forth above directed to the attention of the President of the Representative, and in the case of the Selected Dealer, to the address provided below by the Selected Dealer, directed to the attention of the President.

17. Termination. This Agreement may be terminated by the Representative with or without cause upon written notice to the Selected Dealer to such effect; and such notice having

been given, this Agreement shall terminate at the time specified therein. Additionally, this Agreement shall terminate upon the earlier of the termination of the Underwriting Agreement, or at the close of business sixty days after the Securities are released by the Representative for sale to the public.

18. General Provisions. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of Colorado. This Agreement embodies the entire agreement and understanding between the Representative and the Selected Dealer and supersedes all prior agreements and understandings related to the subject matter hereof, and this Agreement may not be modified or amended or any term or provision hereof waived or discharged except in writing signed by the party against whom such amendment, modification, waiver or discharge is sought to be enforced. All the terms of this Agreement, whether so expressed or not, shall be binding upon, and shall inure to the benefit of, the respective successors, legal representatives and assigns of the parties hereto; provided, however, that none of the parties hereto can assign this Agreement or any of its rights hereunder without the prior written consent of the other party hereto, and any such attempted assignment or transfer without the other party's prior written consent shall be void and without force or effect. The headings of this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

If the foregoing correctly sets forth the terms and conditions of your agreement to purchase the Securities allotted to you, please indicate your acceptance thereof by signing and returning to Neidiger/Tucker/Bruner, Inc. the duplicate copy of this Agreement, whereupon this letter and your acceptance shall become and evidence a binding contract between you and the Representative.

NEIDIGER/TUCKER/BRUNER, INC.

By:________________________________
Title:_____________________________

Gentlemen:

The undersigned confirms its agreement to purchase __________ shares of Common Stock and __________ Warrants of Natural Gas Services Group, Inc., upon the terms and subject to the conditions of the foregoing Selected Dealers Agreement, and further agrees that any agreement by it to purchase additional Securities during the life of such Agreement will be upon the same terms and subject to the same conditions. The undersigned acknowledges receipt of the Prospectus relating to the public offering of the Securities and confirms that in agreeing to purchase such Securities it has relied on such Prospectus and not on any other statement whatsoever written or oral.

Firm Name:_________________________________
(Print or Type name of Firm)

By:____
(Authorized Agent)

____
(Print or Type Name and Title of Authorized Agent)

Address:___________________________________

Telephone No.:_____________________________

IRS Employer Identification No.:___________

Dated:___________________, 2002

EXHIBIT 3.01

ARTICLES OF INCORPORATION
OF
NATURAL GAS SERVICES GROUP, INC.

The undersigned, who, if a natural person, is eighteen years of age or older, hereby establishes a corporation pursuant to the Colorado Business Corporation Act, as amended, and adopts the following Articles of Incorporation:

ARTICLE I
NAME

The name of the corporation is Natural Gas Services Group, Inc.

ARTICLE II
AUTHORIZED CAPITAL AND SHAREHOLDERS

1. The aggregate number of shares which the corporation shall have authority to issue is 30,000,000 shares of $0.01 par value common stock and 5,000,000 shares of $0.01 par value preferred stock. The preferred stock may be issued in any number of series, as determined by the board of directors. The board of directors may by resolution fix the designation and number of shares of any such series arid may determine, alter or revoke the rights, including voting rights, preferences, privileges and restrictions pertaining to any wholly unissued shares. The board of directors may thereafter in the same manner increase or decrease the number of shares of any such series (but not below the number of shares of that series then outstanding).

2. Each shareholder of record shall have one vote for each share of stock standing in the shareholder's name on the books of the corporation and entitled to vote, except that in the election of directors each shareholder shall have as many votes for each share held by him as there are directors to be elected and for whose election the shareholder has a right to vote. Cumulative voting shall not be permitted in the election of directors or otherwise.

3. Unless otherwise ordered by a court of competent jurisdiction, at all meetings of shareholders a majority of the shares of a voting group entitled to vote at such meeting, represented in person or by proxy, shall constitute a quorum of that voting group.

4. Except as bylaws adopted by the shareholders may provide for a greater voting requirement and except as otherwise set forth herein, action on a matter is approved if a quorum exists and if the votes cast favoring the action exceed the votes cast opposing the action. Any bylaw adding, changing or deleting a greater quorum or voting requirement for shareholders shall meet the same quorum requirement and be adopted by the same vote required to take action under the quorum and voting requirements then in effect or proposed to be adopted, whichever are greater.

5. Any action required or permitted to be taken by shareholders of the corporation must be taken at a duly called annual or special meeting of such shareholders and may not be taken by consent in writing by such shareholders.

ARTICLE III
OFFICES AND REGISTERED AGENT

1. The strut address of the initial registered office of the corporation is 4643 South Ulster Street, Suite 900, Denver, Colorado 80237, and the name of the initial registered agent at that address is Thomas S. Smith. The written consent of the initial registered agent to the appointment as such is stated below.

2. The address of the corporation's initial principal office is 2911 South County Road 1260, Midland, Texas 79706.

ARTICLE IV
INCORPORATOR

The name and address of the incorporator is Thomas S. Smith, 4643 South Ulster Street, Suite 900, Denver, Colorado 80237.

ARTICLE V
PURPOSES

The corporation shall have and may exercise all of the rights, powers and privileges now or hereafter conferred upon corporations organized under the laws of Colorado. In addition, the corporation may do everything necessary, suitable or proper for the accomplishment of any of its corporate purposes. The corporation may conduct part or all of its business in any part of Colorado, the United States or the world and may hold, purchase, mortgage, lease and convey real and personal property in any of such places.

ARTICLE VI
PREEMPTIVE RIGHTS

The corporation elects to have no preemptive rights.

ARTICLE VII
BOARD OF DIRECTORS

1. The corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, a board of directors.

2. The number of directors of the corporation shall be fixed by the bylaws. Three directors shall constitute the initial board of directors. The following persons are elected to serve as the corporation's initial directors until the first annual meeting of shareholders or until their successors are duly elected and qualified:

NAME	ADDRESS
Wallace O. Sellers	P.O. Box 106 6539 Upper York Road Solebury, Pennsylvania 18963-0106
Burnance Boles, Jr.	6225 Rider Road Odessa, Texas 79762
Wallace Sparkman	205 Del Mar Boulevard Corpus Christi, Texas 78404

The Board of Directors shall be divided into three (3) groups, each group to be as nearly equal in number as possible. The terms of office of directors of the first group are to expire at the first annual meeting of shareholders after their election, the terms of office of the second group are to expire at the second annual meeting after their election, and the teens of office of the third group are to expire at the third annual meeting after their election. Thereafter, each director shall serve for a term ending on the date of the third annual meeting of shareholders following the annual meeting at which such director was elected. This provision setting forth the division of directors into three groups cannot be amended or repealed by the directors and cannot be amended or repealed without the affirmative vote of the holders of at least 80% of the votes entitled to be cast in the election of directors.

ARTICLE VIII
LIMITATION ON DIRECTOR LIABILITY

A director of the corporation shall not be personally liable to the corporation or to its shareholders for monetary damages for breach of fiduciary duty as a director. However, this provision shall not eliminate or limit the liability of a director to the corporation or to its shareholders for monetary damages otherwise existing for (i) any breach of the director's duty of loyalty to the corporation or to its shareholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) acts specified in Section 7-108-403 of the Colorado Business Corporation Act, as it may be amended from time to time; or (iv) any transaction from which the director directly or indirectly derived any improper personal benefit. If the Colorado Business Corporation Act is hereafter amended to eliminate or limit further the liability of a director, then, in addition to the elimination and limitation of liability provided by the preceding sentence, the liability of each director shall be eliminated or limited to the fullest extent permitted by the Colorado Business Corporation Act as so amended. Any repeal or modification of this Article VIII shall not adversely affect any right or protection of a director of the corporation under this Article VIII, as in effect immediately prior to such repeal or modification, with respect to any liability that would have accrued, but for this Article VIII, prior to such repeal or modification. Nothing contained herein will be construed to deprive any director of the director's right to all defenses ordinarily available to a director nor will anything herein be construed to deprive any director of any right the director may have for contribution from any other director or other person.

ARTICLE IX
CONFLICTING INTEREST TRANSACTIONS AND INDEMNIFICATION

The following provisions are inserted for the management of the business and for the conduct of the affairs of the corporation and the same are in furtherance of and not in limitation or exclusion of the powers conferred by law.

1. Conflicting Interest Transactions. As used in this paragraph, "conflicting interest transaction" means any of the following: (i) a loan or other assistance by the corporation to a director of the corporation or to an entity in which a director of the corporation is a director or officer or has a financial interest; (ii) a guaranty by the corporation of an obligation of a director of the corporation or of an obligation of an entity in which a director of the corporation is a director or officer or has a financial interest; or (iii) a contract or transaction between the corporation and a director of the corporation or between the corporation and an entity in which a director of the corporation is a director or officer or has a financial interest. No conflicting interest transaction shall be void or voidable, be enjoined, be set aside or give rise to an award of damages or other sanctions in a proceeding by a shareholder or by or in the right of the corporation solely because the conflicting interest transaction involves a director of the corporation or an entity in which a director of the corporation is a director or officer or has a financial interest or solely because the director is present at or participates in the meeting of the corporation's board of directors or of the committee of the board of directors which authorizes, approves or ratifies a conflicting interest transaction or solely because the director's vote is counted for such purpose if: (A) the material facts as to the director's relationship or interest and as to the conflicting interest transaction arc disclosed or are known to the board of directors or the committee and the board of directors or committee in good faith authorizes, approves or ratifies the conflicting interest transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors are less than a quorum; or (B) the material facts as to the director's relationship or interest and as to the conflicting interest transaction are disclosed or are known to the shareholders entitled to vote thereon and the conflicting interest transaction is specifically authorized, approved or ratified in good faith by a vote of the shareholders; or (C) the conflicting interest transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directors, a committee thereof or the shareholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes, approves or ratifies the conflicting interest transaction.

2. Loans and Guaranties for the Benefit of Directors. Neither the board of directors nor any committee thereof shall authorize a loan by the corporation to a director of the corporation or to an entity in which a director of the corporation is a director or officer or has a financial interest or authorize a guaranty by the corporation of an obligation of a director of the corporation or of an obligation of an entity in which a director of the corporation is a director or officer or has a financial interest, until at least ten days after written notice of the proposed authorization of the loan or guaranty has been given to the shareholders who would be entitled to vote thereon if the issue of the loan or guaranty were submitted to a vote of the shareholders. The requirements of this paragraph 2 are in addition to, and not in substitution for, the provisions of paragraph 1 of this Article IX.

3. Indemnification. The corporation shall indemnify, to the maximum extent permitted by law in effect from time to time, any person who is or was a director, officer, agent, fiduciary or employee of the corporation against any claim, liability or expense arising against or incurred by such person made party to a proceeding because such person is or was a director, officer, agent, fiduciary or employee of the corporation or because such person is or was serving another entity as a director, officer, partner, trustee, employee, fiduciary or agent at the corporation's request. The corporation shall further have the authority to the maximum extent permitted by law to purchase and maintain insurance providing such indemnification.

4. Negation of Equitable Interests in Shares or Rights. Unless a person is recognized as a shareholder through procedures established by the corporation pursuant to Section 7-107-204 of the Colorado Business Corporation Act or any similar law, the corporation shall be entitled to treat the registered holder of any shares of the corporation as the owner thereof for all purposes permitted by the Colorado Business Corporation Act including, without limitation, all rights deriving from such shares, and the corporation shall not be bound to recognize any equitable or other claim to, or interest in, such shares or rights deriving from such shares on the part of any otter person including, without limitation, a purchaser, assignee or transferee of such shares, unless and until such other person becomes the registered holder of such shares or is recognized as such, whether or not the corporation shall have either actual or constructive notice of the claimed interest of such other person. By way of example and not of limitation, until such other person has become the registered holder of such shares or is recognized pursuant to Section 7-107-204 of the Colorado Business Corporation Act or any similar applicable law, such person shall not be entitled: (i) to receive notice of the meetings of the shareholders; (ii) to vote at such meetings; (iii) to examine a list of the shareholders; (iv) to be paid dividends or other distributions payable to shareholders; or (v) to own, enjoy and exercise any other rights deriving from such shares against the corporation. Nothing contained herein will be construed to deprive any beneficial shareholder, as defined in Section 7-113-101(1) of the Colorado Business Corporation Act, as amended from time to time, of any right such beneficial shareholder may have pursuant to Article 113 of the Colorado Business Corporation Act or any similar law subsequently enacted.

Dated the 16th day of December 1998.

/s/ Thomas S. Smith

Thomas S. Smith, Incorporator

CONSENT OF REGISTERED AGENT

Thomas S. Smith hereby consents to the appointment as the initial registered agent for Natural Gas Services Group, Inc.

/s/ Thomas S. Smith

Thomas S. Smith, Initial Registered Agent

EXHIBIT 3.02

ARTICLES OF AMENDMENT TO THE ARTICLES OF INCORPORATION OF NATURAL GAS SERVICES GROUP, INC.

Pursuant to the provisions of the Colorado Business Corporation Act (the "Act"), the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

FIRST: The name of the corporation is Natural Gas Services Group, Inc.

SECOND: The following amendment to the Articles of Incorporation was duly adopted on March 31, 1999, by the shareholders and on March 17, 1999 by the directors of the corporation as prescribed by the Act. The number of votes cast for the amendment by each voting group entitled to vote separately on the amendment was sufficient for approval by that voting group.

Article II, paragraph 5 of the Articles of Incorporation is amended in its entirety to read as follows:

5. Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof. Signature by facsimile shall be given the same force and effect as original signatures, and any consent in writing may be executed in counterparts.

Dated the 31st day of March 1999

NATURAL GAS SERVICES GROUP, INC.
a Colorado corporation

By: /s/ Burnace J. Boles, Jr.

Burnace J. Boles, Jr., President

EXHIBIT 3.03

ARTICLES OF AMENDMENT
TO THE
ARTICLES OF INCORPORATION
OF
NATURAL GAS SERVICES GROUP, INC.

Pursuant to the provisions of the Colorado Business Corporation Act, the undersigned Corporation adopts the following Articles of Amendment to its Articles of Incorporation:

FIRST: The name of the Corporation is NATURAL GAS SERVICES GROUP, INC.

SECOND: The following amendments to the Articles of Incorporation were duly adopted by the board of directors on July 25, 2001, in accordance with Section 7-106-102 of the Colorado Business Corporation Act.

Article II of the Articles of Incorporation is hereby amended by adding the following Section II.6:

Section II.6 Convertible Series A Preferred Stock. Of the 5,000,000 shares of the Corporation's $0.01 par value preferred stock authorized, 1,177,000 shares of the Corporation's preferred stock shall consist of 10% Convertible Series A Preferred Stock ("Convertible Series A"). The rights, preferences, privileges and restrictions imposed upon the Convertible Series A are as follows:

(a) Dividends. The holders of the Convertible Series A shall be entitled to receive, out of funds legally available therefor, cumulative dividends at the rate of 10% percent of the Liquidation Value per annum in cash, when and if declared by the Board of Directors which shall be preferential to dividends on any Junior Securities. The dividend on the Convertible Series A shall be payable quarterly beginning 30 days after the last day of the first calendar quarter after the issuance of the Convertible Series A ("Original Issue Date") and 30 days after the end of each calendar quarter thereafter, when and if declared by the Board of Directors. Any dividends earned on the Convertible Series A from the Original Issue Date to the end of the first calendar quarter after the Original Issue Date, shall be earned pro rata from the Original Issue Date.

If any dividends payable on the Convertible Series A are not paid for any reason, the right of the holders of the Convertible Series A to receive payment of such dividends shall not lapse or terminate, but said unpaid dividends shall accumulate and shall be paid without interest to the holders of the Convertible Series A, when and if declared by the Board of Directors of the Corporation, before any sum or sums shall be set aside for or applied to the purchase or redemption of the Convertible Series A or the purchase, redemption or other acquisition for value of any Junior Securities and before any dividend shall be paid or declared, or any other distribution shall be ordered or made, upon any Junior Securities. After cumulative dividends on the Convertible Series A for

all past dividend periods and for the then current year dividend period shall have been declared and paid or set apart, if the Board of Directors may declare dividends out of funds legally available therefor, such additional dividends may be declared on any Junior Securities. "Junior Securities" as used herein means any of the Corporation's equity securities other than the Convertible Series A shares.

(b) Liquidation and Dissolution. Upon the voluntary or involuntary liquidation, winding up or dissolution of the Corporation, out of the assets available for distribution to shareholders each share of Convertible Series A shall be entitled to receive, in preference to any payment on any Junior Securities of the Corporation, an amount equal to three dollars and twenty-five cents ($3.25) per share, plus cumulative dividends as provided in Section II.6(a) of this Article II accrued and unpaid to the date payment is made available to the Convertible Series A (the "Liquidation Value"). After the full preferential liquidation amount has been paid to, or determined and set apart for, Convertible Series A, the remaining assets shall be payable to the holders of the Corporation's Junior Securities. In the event the assets of the Corporation are insufficient to pay the full preferential liquidation amount required to be paid to the Convertible Series A, the Convertible Series A shall receive such funds pro rata on a share for share basis until the full liquidating preference on the Convertible Series A is paid in full.

A reorganization described in (d)(iv)(6) below shall not be considered to be a liquidation, winding up or dissolution within the meaning of this Section II.6(b) of this Article II and the Convertible Series A shall be entitled only to the rights provided in the plan of reorganization.

(c) Voting. A holder of a share of Convertible Series A shall be entitled to one vote on any and all matters, including the election of directors, and shall, except as otherwise may be provided by law, vote as a class with the holders of outstanding Common Stock.

(d) Conversion Rights. The holders of Convertible Series A have the following conversion rights (the "Conversion Rights"):

(i) Right to Convert. Subject to any prior automatic conversion under subsection (ii) immediately below, each share of Convertible Series A shall be convertible at the option of the holder, at the office of the Corporation or of any transfer agent for such Convertible Series A, as the case may be, into fully paid and nonassessable shares of Common Stock, at a conversion price of $3.25 per share, subject to adjustment pursuant to paragraph (d)(iv) below ("Conversion Price").

(ii) Automatic Conversion. Each share of Convertible Series A shall be automatically converted into Common Stock if, at any time after six months from the completion of the first offering by the Corporation, pursuant to a registration statement declared effective by the United States Securities and Exchange Commission, the closing market price of the Common Stock equals or exceeds 200% of the Conversion Price for 20 consecutive trading days. Upon the occurrence of such event, each share of Convertible Series A shall be converted into fully paid and nonassessable shares of Common Stock at the Conversion Price.

(iii) Mechanics of Conversion. Before any holder of shares of Convertible Series A shall be entitled to convert the same into full shares of Common Stock pursuant to paragraph (d)(i) above, the holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for such Convertible Series A, as the case may be, and shall give written notice to the Corporation at such office that the holder elects to convert the same and shall state therein the holder's name or the name or names of the holder's nominees in which the holder wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver or cause to be issued and delivered at such office to such holder, or to the holder's nominee or nominees, a certificate or certificates for the number of full shares of Common Stock to which the holder shall be entitled as aforesaid. A conversion pursuant to paragraph (d)(i) above shall be deemed to have occurred immediately prior to the close of business on the date of such surrender of the shares of Convertible Series A to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

Upon automatic conversion of Convertible Series A into full shares of Common Stock pursuant to paragraph (d)(ii) above, the holder of the Convertible Series A shall, upon request by the Corporation, surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or any transfer agent for such Convertible Series A, as the case may be, and shall state therein the holder's name or the name or names of the holder's nominees in which the holder wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver or cause to be issued and delivered at such office to such holder, or to the holder's nominee or nominees, a certificate or certificates for the number of full shares of Common Stock to which the holder shall be entitled as aforesaid.

Each holder of the Convertible Series A whose Convertible Series A is converted to Common Stock shall be entitled to, and the Corporation shall promptly pay in cash, or set aside for payment, all unpaid dividends with respect to such converted shares of the Convertible Series A, earned to and including the date of conversion. A holder of the Convertible Series A shall not be entitled to any remaining dividends with respect to the Convertible Series A so converted, but shall be entitled to receive, on the date of the conversion, the arrearages, if any, with respect to any shares of the Convertible Series A so converted.

(iv) Adjustments to Conversion Price.

(1) Special Definitions. For purposes of this paragraph (d), the "Original Issue Date" shall mean, the original date on which a share of Convertible Series A was first issued to each such shareholder and "Market Price" shall be determined as follows:

a) if the Common Stock is listed and registered on any national securities exchange or traded on The Nasdaq Stock Market ("Nasdaq"), the closing bid price;

b) if such Common Stock is not at the time listed on any such exchange or traded on Nasdaq but is traded on the OTC Bulletin Board, or if not, on the over-the-counter market as reported by the National Quotation Bureau or other comparable service, the closing bid price for such stock; or

c) if clauses a) and b) above are not applicable, the fair value per share of such Common Stock as determined in good faith and on a reasonable basis by the Board of Directors of the Corporation.

(2) Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the Original Issue Date effect a subdivision of the outstanding Common Stock, the applicable Conversion Price then in effect immediately before that subdivision shall be proportionately decreased and, conversely, if the Corporation shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock, the applicable Conversion Price then in effect immediately before the combination shall be proportionately increased. Any adjustments under this paragraph (d)(iv)(2) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(3) Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time, or from time to time, after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in shares of Common Stock, then and in each event the applicable Conversion Price then in effect shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price then in effect by a fraction:

a) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

b) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter such Conversion Price shall be adjusted pursuant to this paragraph (d)(iv)(3) as of the time of actual payment of such dividends or distributions.

(4) Adjustment for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation other than shares of Common Stock, then and in such event provisions shall be made so that the holders of Convertible Series A shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable thereon, the amount of securities of the Corporation which they would have received had their Convertible Series A been converted into Common Stock on the date of such event and had thereafter, during the period from the date of such event to and including the conversion date, retained such securities (together with any distributions payable thereon during such period) receivable by

them as aforesaid during such period, giving application to all adjustments called for during such period under this paragraph (d) with respect to the rights of the holders of the Convertible Series A.

(5) Adjustment for Reclassification, Exchange, or Substitution. If the Common Stock issuable upon the conversion of the Convertible Series A at any time or from time to time after the Original Issue Date, shall be changed into the same or different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividends provided for in paragraphs (d)(iv)(2) and (3) above, or a reorganization, merger, consolidation, or sale of assets provided for in paragraph (d)(iv)(6) below, then, and in each such event, provisions shall be made (by adjustment to the Conversion Price or otherwise) so that the holder of each share of Convertible Series A shall have the right thereafter to convert each share of Convertible Series A into the kind and amount of shares of stock and other securities receivable upon such reorganization, reclassification, or other change, by holders of the number of shares of Common Stock into which such share of Convertible Series A might have been converted immediately prior to such reorganization, reclassification, or change, all subject to further adjustment as provided herein.

(6) Adjustment for Reorganization, Merger, Consolidation or Sales of Assets. If at any time or from time to time after the Original Issue Date, there shall be a capital reorganization of the Corporation (other than a subdivision, combination, reclassification, exchange or substitution of shares provided for in paragraphs (d)(iv)(2) and (5) above) or a merger or consolidation of the Corporation with or into another corporation, or the sale of all or substantially all of the Corporation's properties and assets to any other person or entity, then, as a part of such reorganization, merger, consolidation, or sale, provision shall be made (by adjustment to the Conversion Price or otherwise) so that the holders of the Convertible Series A shall thereafter be entitled to receive upon conversion of the Convertible Series A, the number and kind of shares of stock or other securities or property of the Corporation, or of any successor corporation resulting from such merger or consolidation or sale, to which a holder of Common Stock deliverable upon conversion of such shares would have been entitled if such capital reorganization, merger, consolidation, or sale occurred on the date of the conversion.

(7) Adjustment for Public Offering of Common Stock. If the Corporation completes a public offering of Common Stock at a price less than 150% of the Conversion Price, the Conversion Price will be reduced to the price at which such public offering is completed.

(8) Adjustment for Investments. If the Corporation should at any time receive any investment in the Corporation (other than through the conversion of convertible securities or the exercise of options or warrants outstanding before the Original Issue Date at a price equivalent to less than the Conversion Price in effect immediately prior to the time that the investment is made, the Conversion Price shall be automatically adjusted to a price (computed to the nearest cent) determined by dividing (i) the sum of (x) the number of shares of Common Stock outstanding immediately prior to such investment multiplied by the Conversion Price in effect immediately prior to such investment, and (y) the consideration, if any, received by the Corporation through the investment, by (ii) the total number of shares of Common Stock outstanding immediately after such investment.

For purposes of this paragraph 8, the following provisions shall also be applicable:

(A) Rights, Options, or Warrants. In case the Corporation shall in any manner grant any right to subscribe for or to purchase, or any option or warrant for the purchase of shares of Common Stock or for the purchase of any stock or securities convertible into or exchangeable for shares of Common Stock (such convertible or exchangeable stock or securities being hereinafter referred to as the "Underlying Convertible Securities") and if the minimum price per share for which shares of Common Stock are issuable, pursuant to such rights, options, warrants or upon conversion or exchange of such Underlying Convertible Securities (determined by dividing (i) the total amount, if any, received or receivable by the Corporation as consideration for the granting of such rights, options, or warrants plus the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of such rights, options. or warrants under the terms of such rights, options, or warrants at the time of making such computation, plus, in the case of such Underlying Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the conversion or exchange thereof

under the terms of such Underlying Convertible Securities at the time of making such computation, by (ii) the total maximum number of shares of Common Stock issuable pursuant to such rights, options, or warrants or upon the conversion or exchange of the total maximum amount of such Underlying Convertible Securities issuable upon the exercise of such rights, options, or warrants under the terms of such rights, options, warrants or Underlying Convertible Securities at the time of making such computation) shall be less than the Conversion Price in effect immediately prior to the time of the granting of such rights or options, then the total maximum number of shares of Common Stock issuable pursuant to such rights, options, warrants or upon conversion or exchange of the total maximum amount of such Underlying Convertible Securities issuable upon the exercise of such rights, options, or warrants under the terms of such rights, options, warrants or Underlying Convertible Securities at the time of making such computation shall (as of the date of granting of such rights, options, or warrants) be deemed to be outstanding and to have been issued for said price per share as so determined and the Conversion Price shall be adjusted as provided above; provided, that no further adjustment of the Conversion Price shall be made upon the actual issue of shares of Common Stock so deemed to have been issued unless the price per share received by the Corporation upon the actual issuance of shares of Common Stock so deemed to be issued differs from the price per share which was last used to adjust the Conversion Price or unless by the terms of such rights, options or warrants or Underlying Convertible Securities the price per share which the Corporation will receive upon any such issuance of shares of Common Stock differs from the price per share which was last used to adjust the Conversion Price, in either of which events the Conversion Price shall be adjusted upon the occurrence of either such event to reflect the new price per share of Common Stock; and further provided, that, upon the expiration of such rights (including rights to convert or exchange), options or warrants (a) the number of shares of Common Stock deemed to have been issued and outstanding by reason of the fact that they were issuable pursuant to such rights, options, or warrants (including rights to convert or exchange) that were not exercised, shall no longer be deemed to be issued and outstanding, and (b) the Conversion Price shall forthwith be adjusted to the price which would have prevailed had all adjustments been made

on the basis of the issue only of the shares of Common Stock actually issued upon the exercise of such rights, options, or warrants or upon conversion or exchange of such Underlying Convertible Securities.

(B) Convertible Securities. If the Corporation shall in any manner issue or sell any Convertible Securities other than the rights, options, or warrants described in Section 8(A) hereof and if the minimum price per share for which shares of Common Stock are issuable upon conversion or exchange of such Convertible Securities (determined by dividing (i) the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange thereof under the terms of such Convertible Securities at the time of making such computation, by (ii) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities under the terms of such Convertible Securities at the time of making such computation) shall be less than the Conversion Price in effect immediately prior to the time of such issue or sale, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities at the time of making such computation shall (as of the date of the issue or sale of such Convertible Securities) be deemed to be outstanding and to have been issued for said price per share as so determined and the Conversion Price shall be adjusted as provided above; provided, that no further adjustment of the Conversion Price shall be made upon the actual issue of shares of Common Stock so deemed to have been issued unless the price per share received by the Corporation upon the actual issuance of shares of Common Stock so deemed to be issued differs from the price per share which was last used to adjust the Conversion Price or unless by the terms of such Convertible Securities the price per share which the Corporation will receive upon any such issuance of shares of Common Stock differs from the price per share which was last used to adjust the Conversion Price, in either of which events the Conversion Price shall be adjusted upon the occurrence of either such event to reflect the new price per share of Common Stock; and, further provided that if any such issue or sale of such Convertible Securities is

made upon exercise of any right to subscribe for or to purchase or any option to purchase any such Convertible Securities for which an adjustment of the Conversion Price has been or is to be made pursuant to the provisions of Section 8(A) then no further adjustment of the Conversion Price shall be made by reason of such issue or sale unless the price per share received by the Corporation upon the conversion or exchange of such Convertible Securities when actually issued differs from the price per share which was last used to adjust the Conversion Price or unless by the terms of such Convertible Securities the price per share which the Corporation will receive upon any such issuance of shares of Common Stock upon conversion or exchange of such Convertible Securities differs from the price per share which was last used to adjust the Conversion Price, in either of which events the Conversion Price shall be adjusted upon the occurrence of either of such events to reflect the new price per share of Common Stock; and, further provided, that upon the termination of the right to convert or to exchange such Convertible Securities for shares of Common Stock, (a) the number of shares of Common Stock deemed to have been issued and outstanding by reason of the fact that they were issuable upon conversion or exchange of any such Convertible Securities, which were not so converted or exchanged, shall no longer be deemed to be issued and outstanding, and (b) the Conversion Price shall forthwith be adjusted to the price which would have prevailed had all adjustments been made on the basis of the issue only of the number of shares of Common Stock actually issued upon conversion or exchange of such Convertible Securities.

(C) Determination of Issue Price. In case any shares of Common Stock or Convertible Securities of the Corporation shall be issued for cash, the consideration received therefor, which shall be the gross sales price for such security without deducting therefrom any commission or other expenses paid or incurred by the Corporation for any underwriting of, or otherwise in connection with, the issuance thereof, shall be deemed to be the amount received by the Corporation therefor. In case any shares of Common Stock or Convertible Securities shall be issued for a consideration part or all of which shall be other than cash, then, for the purpose of this Section 8, the Board of Directors of the Corporation shall determine the fair value of such consideration, irrespective of accounting treatment,

and such shares of Common Stock or Convertible Securities shall be deemed to have been issued for an amount of cash equal to the value so determined by the Board of Directors. The reclassification of securities other than shares of Common Stock into securities including shares of Common Stock shall be deemed to involve the issuance for a consideration other than cash of such shares of Common Stock immediately prior to the close of business on the date fixed for the determination of security holders entitled to receive such shares of Common Stock. In case any shares of Common Stock or Convertible Securities shall be issued together with other stock or securities or other assets of the Corporation for consideration, the Board of Directors of the Corporation shall determine what part of the consideration so received is to be deemed to be consideration for the issue of such shares of Common Stock or Convertible Securities.

(D) Determination of Date of Issue. In case the Corporation shall take a record of the holders of shares of Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in shares of Common Stock or in Convertible Securities or (ii) to subscribe for or purchase shares of Common Stock or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(E) Treasury Shares. Shares of Common Stock at any relevant time owned or held by, or for the account of, the Corporation shall not be deemed outstanding.

(v) No Impairment. The Corporation will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this paragraph (d) and in the taking of all such action as may be necessary or appropriate, in order to protect the conversion rights of the holders of the Convertible Series A against impairment.

(vi) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price or any other adjustment pursuant to this paragraph (d), the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish (in accordance with subsection (viii) below) to each holder of such Convertible Series A a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall furnish (in accordance with subsection (viii) below) or cause to be furnished to such holder a like certificate setting forth the (i) such adjustment and readjustment, (ii) the Conversion Price at the time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of a share of such Convertible Series A.

(vii) Notices of Record Date. In the event that:

(1) the Corporation shall set a record date for the purpose of entitling the holders of its shares of Common Stock to receive a dividend, or other distribution, payable otherwise than in cash;

(2) the Corporation shall set a record date for the purpose of entitling the holders of its shares of Common Stock to subscribe for or purchase any shares of any class or to receive any other rights;

(3) there shall occur any capital reorganization of the Corporation, reclassification of the shares of the Corporation (other than a subdivision or combination of its outstanding common stock), consolidation or merger of the Corporation with or into another corporation or conveyance of all or substantially all of the assets of the Corporation to another person or entity; or

(4) there shall occur a voluntary or involuntary dissolution, liquidation, or winding up of the Corporation;

then, and in any such case, the Corporation shall cause to be mailed to the holders of record of the outstanding shares of the Convertible Series A, at least 10 days prior to the date hereinafter specified, a notice stating (a) the date which (x) has been set as the record date for the purpose of such dividend, distribution, or rights, or (y) such reclassification, reorganization, consolidation, merger, conveyance, dissolution, liquidation or, winding up is to take place and (b) the record date as of which holders of Common Stock of

record shall be entitled to other property deliverable upon such reclassification, reorganization, consolidation, merger, conveyance, dissolution, liquidation or winding up.

(viii) Notices. Any notice required by the provisions of this paragraph (d) to be given to the holders of shares of Convertible Series A shall be in writing and shall be delivered by personal service or agent, or by registered or certified mail, return receipt requested, with postage thereon fully prepaid. All such communications shall be addressed to each holder of record at its address appearing on the books of the Corporation. Service of any such communication made only by mail shall be deemed complete on the date of actual delivery as shown by the addressee's registry or certification receipt.

(ix) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of Convertible Series A. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to the product of such fraction multiplied by the Market Price of one share of the Corporation's Common Stock on the date of conversion.

(x) Payment of Taxes. The Corporation will pay all taxes (other than taxes based upon income) and other governmental charges that may be imposed with respect to the issue or delivery of shares of Common Stock upon conversion of shares of Convertible Series A, including without limitation any tax or other charge imposed in connection with any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the shares of the Convertible Series A so converted were registered.

(xi) Reservation of Common Stock. The Corporation shall at all times reserve and keep available, out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the Convertible Series A, the full number of shares of Common Stock deliverable upon the conversion of all shares of Convertible Series A from time to time outstanding. The Corporation shall from time to time increase the authorized number of shares of Common Stock if the remaining unissued authorized shares of Common Stock shall not be sufficient to permit the conversion of all of the Convertible Series A at the time outstanding.

(xii) Retirement of Convertible Series A Converted. No shares of Convertible Series A that have been converted shall ever again be reissued, and all such shares so converted shall, upon such conversion, cease to be a part of the authorized shares of the Corporation.

(e) No Preemptive Rights. No holder of the Convertible Series A shall be entitled as of right to subscribe for, purchase, or receive any part of any new or additional shares of any class, whether now or hereafter authorized, or of bonds, debentures, or other evidences of indebtedness convertible into or exchangeable for shares of any class, but all such new or additional shares of any class, or bonds, debentures, or other evidences of indebtedness convertible into or exchangeable for shares, may be issued and disposed of by the Board of Directors on such terms and for such consideration (to the extent permitted by law), and to such person or persons as the Board of Directors in their absolute discretion may deem advisable.

(f) Replacement. Upon receipt of evidence reasonably satisfactory to the Corporation (an affidavit of the registered holder will be satisfactory) of the ownership and the loss, theft, destruction or mutilation of any certificate evidencing Convertible Series A shares, and in the case of any such loss, theft or destruction, upon receipt of indemnity reasonably satisfactory to the Corporation, or, in the case of any such mutilation upon surrender of such certificate, the Corporation will (at its expense) execute and deliver in lieu of such certificate a new certificate of like kind representing the number of Convertible Series A shares represented by such lost, stolen, destroyed or mutilated certificate and dated the date of such lost, stolen, destroyed or mutilated certificate.

Dated: July 25, 2001

NATURAL GAS SERVICES GROUP INC.,
a Colorado corporation

By: /s/ Wayne L. Vinson

Wayne L. Vinson, President

EXHIBIT 3.04

ADOPTED DECEMBER 18, 1998

BYLAWS
OF
NATURAL GAS SERVICES GROUP, INC.

ARTICLE I
OFFICES

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

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

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

ARTICLE II
SHAREHOLDERS

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

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

SECTION 2. SPECIAL MEETINGS. Unless otherwise prescribed by statute, special meetings of the shareholders may be called for any purpose by the chairman of the board, by the president, by the secretary, by any one director or by the board of directors of the corporation. The president shall call a special meeting of the shareholders if the corporation receives one or more written demands for the meeting, stating the purpose or purposes for which it is to be held, signed and dated by holders of shares representing at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting.

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

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

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

When a meeting is adjourned to another date, time or place, notice need not be given of the new date, time or place if the new date, time or place of such meeting is announced before adjournment at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which may have been transacted at the original meeting. If the adjournment is for more than 120 days, or if a new record date is fixed for the adjourned meeting, a new notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting as of the new record date.

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

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

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

SECTION 6. VOTING LISTS. The secretary shall make, at the earlier of ten days before each meeting of shareholders or two business days after notice of the meeting has been given, a complete list of the shareholders entitled to be given notice of such meeting or any adjournment thereof. The list shall be arranged by voting groups and within each voting group by class or series of shares, shall be in alphabetical order within each class or series, and shall show the address of and the number of shares of each class or series held by each shareholder. For the period beginning the earlier of ten days prior to the meeting or two business days after notice of the meeting is given and continuing through the meeting and any adjournment thereof, this list

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

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

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

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

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

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

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

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

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

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

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

SECTION 10. VOTING OF SHARES. Each outstanding share, regardless of class, shall be entitled to one vote, except in the election of directors, and each fractional share shall be entitled to a corresponding fractional vote on each matter submitted to a vote at a meeting of shareholders, except to the extent that the voting rights of the shares of any class or classes are limited or denied by the articles of incorporation as permitted by the Colorado Business Corporation Act. Cumulative voting shall not be permitted in the election of directors or for any other purpose. Each record holder of stock shall be entitled to vote in the election of directors and shall have as many votes for each of the shares owned by him as there are directors to be elected and for whose election he has the right to vote.

At each election of directors, that number of candidates equaling the number of directors to be elected, having the highest number of votes cast in favor of their election, shall be elected to the board of directors.

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

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

SECTION 11. CORPORATION'S ACCEPTANCE OF VOTES. If the name signed on a vote, consent, waiver, proxy appointment, or proxy appointment revocation corresponds to the name of a shareholder, the corporation, if acting in good faith, is entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and give it effect as the act of the shareholder. If the name signed on a vote, consent, waiver, proxy appointment or proxy appointment revocation does not correspond to the name of a shareholder, the corporation, if acting in good faith, is nevertheless entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and to give it effect as the act of the shareholder if:

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

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

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

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

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

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

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

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

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

ARTICLE III
BOARD OF DIRECTORS

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

SECTION 2. NUMBER, QUALIFICATIONS AND TENURE. The business and affairs of the corporation shall be managed or be under the direction of the Board of Directors; and, subject to any restrictions imposed by law, by the Articles of Incorporation, or by these Bylaws, the Board of Directors may exercise all the powers of the corporation. The Board of Directors shall consist

of three (3) members, unless otherwise determined from time to time by resolution adopted by at least 80% of the votes entitled to be cast by each voting group entitled to vote thereon, or by unanimous consent of the Board of Directors. No decrease shall affect the shortening of the term of any incumbent director. Directors need not be residents of Colorado or shareholders of the corporation absent provision to the contrary in the Articles of Incorporation or laws of the State of Colorado.

SECTION 3. REMOVAL OF DIRECTORS. Any director or the entire Board of Directors may be removed from office, at any time, but only for cause, at any special meeting of shareholders by the affirmative vote of at least 80% of the votes entitled to be cast by each voting group entitled to vote thereon at such meeting, if notice of the intention to act upon such matter shall have been given in the notice calling such meeting. If the notice calling such meeting shall have so provided, the vacancy caused by such removal may be filled at such meeting by the affirmative vote of at least 80% of the shares of the votes entitled to be cast by each voting group entitled to vote thereon.

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

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

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

SECTION 7. NOTICE. Notice of any special meeting shall be given at least two days prior to the meeting by written notice either personally delivered or mailed to each director at his business address, or by notice transmitted by telegraph, telex, electronically transmitted facsimile or other form of wire or wireless communication. If mailed, such notice shall be deemed to be given and to be effective on the earlier of (i) three days after such notice is deposited in the United States mail, properly addressed, with postage prepaid, or (ii) the date shown on the return

receipt, if mailed by registered or certified mail return receipt requested. If notice is given by telex, electronically transmitted facsimile or other similar form of wire or wireless communication, such notice shall be deemed to be given and to be effective when sent, and with respect to a telegram, such notice shall be deemed to be given and to be effective when the telegram is delivered to the telegraph company. If a director has designated in writing one or more reasonable addresses or facsimile numbers for delivery of notice to him, notice sent by mail, telegraph, telex, electronically transmitted facsimile or other form of wire or wireless communication shall not be deemed to have been given or to be effective unless sent to such addresses or facsimile numbers, as the case may be.

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

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

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

SECTION 9. MANNER OF ACTING. Unless otherwise specified herein, the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

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

SECTION 11. PRESUMPTION OF ASSENT. A director of the corporation who is present at a meeting of the board of directors or committee of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (i) the director objects at the beginning of the meeting, or promptly upon his later arrival, to the holding of the meeting or the transaction of business at the meeting and does not thereafter vote for or assent to any action taken at the meeting, (ii) the director contemporaneously requests that his dissent or abstention as to any specific action taken be entered in the minutes of the meeting, or (iii) the director causes written notice of his dissent or abstention as to any specific action to be

received by the presiding officer of the meeting before its adjournment or by the corporation promptly after the adjournment of the meeting. A director may dissent to a specific action at a meeting, while assenting to others. The right to dissent to a specific action taken at a meeting of the board of directors or a committee of the board of directors shall not be available to a director who voted in favor of such action.

SECTION 12. COMMITTEES. By resolution adopted by a majority of all the directors in office when the action is taken, the board of directors may designate from among its members an executive committee and one or more other committees, and appoint one or more members of the board of directors to serve on them. To the extent provided in the resolution, each committee shall have all the authority of the board of directors, except that no such committee shall have the authority to (i) authorize distributions, (ii) approve or propose to shareholders actions or proposals required by the Colorado Business Corporation Act to be approved by shareholders, (iii) fill vacancies on the board of directors or any committee thereof, (iv) amend articles of incorporation, (v) adopt, amend or repeal the bylaws, (vi) approve a plan of merger not requiring shareholder approval, (vii) authorize or approve the reacquisition of shares unless pursuant to a formula or method prescribed by the board of directors, or (viii) authorize or approve the issuance or sale of shares, or contract for the sale of shares or determine the designations and relative rights, preferences and limitations of a class or series of shares, except that the board of directors may authorize a committee or officer to do so within limits specifically prescribed by the board of directors. The committee shall then have full power within the limits set by the board of directors to adopt any final resolution setting forth all preferences, limitations and relative rights of such class or series and to authorize an amendment of the articles of incorporation stating the preferences, limitations and relative rights of a class or series for filing with the Secretary of State under the Colorado Business Corporation Act.

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

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

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

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

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

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

ARTICLE IV
OFFICERS AND AGENTS

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

SECTION 2. APPOINTMENT AND TERM OF OFFICE. The officers of the corporation shall be appointed by the board of directors at each annual meeting of the board of directors held after each annual meeting of the shareholders. If the appointment of officers is not made at such meeting or if an officer or officers are to be appointed by another officer or officers of the corporation, such appointments shall be made as soon thereafter as conveniently possible. Each officer shall hold office until the first of the following occurs: his successor shall have been duly

appointed and qualified, his death, his resignation, or his removal in the manner provided in Article IV, Section 3.

SECTION 3. RESIGNATION AND REMOVAL. An officer may resign at any time by giving written notice of resignation to the corporation. The resignation is effective when the notice is received by the corporation unless the notice specifies a later effective date.

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

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

SECTION 5. CHAIRMAN OF THE BOARD. The chairman of the board of directors, if appointed and if available, or if not appointed or not available, the chief executive officer, or if not appointed or not available, the president, shall preside at all meetings of the stockholders and of the board of directors.

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

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

SECTION 8. CHIEF OPERATING OFFICER. The chief operating officer, if appointed, shall be in charge of the actual day-to-day operations of the business of the corporation.

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

SECTION 10. SECRETARY. The secretary shall (i) prepare and maintain as permanent records the minutes of the proceedings of the shareholders and the board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation, and a record of all waivers of notice of meetings of shareholders and of the board of directors or any committee thereof, (ii) see that all notices are duly given in accordance with the provisions of these bylaws and as required by law, (iii) serve as custodian of the corporate records and of the seal of the corporation and affix the seal to all documents when authorized by the board of directors, (iv) keep at the corporation's registered office or principal place of business a record containing the names and addresses of all shareholders in a form that permits preparation of a list of shareholders arranged by voting group and by class or series of shares within each voting group, that is alphabetical within each class or series and that shows the address of, and the number of shares of each class or series held by, each shareholder, unless such a record shall be kept at the office of the corporation's transfer agent or registrar, (v) maintain at the corporation's principal office the originals or copies of the corporation's articles of incorporation, bylaws, minutes of all shareholders' meetings and records of all action taken by shareholders without a meeting for the past three years, all written communications within the past three years to shareholders as a group or to the holders of any class or series of shares as a group, a list of the names and business addresses of the current directors and officers, a copy of the corporation's most recent corporate report filed with the Secretary of State, and financial statements showing in reasonable detail the corporation's assets and liabilities and results of operations for the last three years, (vi) have general charge of the stock transfer books of the corporation, unless the corporation has a transfer agent, (vii) authenticate records of the corporation, and (viii) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the chief executive officer, the president or by the board of directors. Assistant secretaries, if any, shall have the same duties and powers as the secretary, subject to supervision by the secretary. The directors and/or shareholders may however respectively designate a person other than the secretary or assistant secretary to keep the minutes of their respective meetings.

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

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

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

ARTICLE V
STOCK

SECTION 1. CERTIFICATES. The board of directors shall be authorized to issue any of its classes of shares with or without certificates. The fact that the shares are not represented by certificates shall have no effect on the rights and obligations of shareholders. If the shares are represented by certificates, such shares shall be represented by consecutively numbered certificates signed, either manually or by facsimile, in the name of the corporation by the chief executive officer or the president and by the secretary or by one or more other persons designated by the board of directors. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nonetheless be issued by the corporation with the same effect as if he were such officer at the date of its issue. Certificates of stock shall be in such form and shall contain such information consistent with the law as shall be prescribed by the board of directors. If shares are not represented by certificates, within a reasonable time following the issue or transfer of such shares, the corporation shall send the shareholder a complete written statement of all of the information required to be provided to holders of uncertificated shares by the Colorado Business Corporation Act.

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

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

SECTION 4. TRANSFER OF SHARES. Upon surrender to the corporation or to a transfer agent of the corporation of a certificate of stock duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, and receipt of such documentary stamps as may be required by law and evidence of compliance with all applicable securities laws and other restrictions, the corporation shall issue a new certificate to the person entitled thereto, and cancel the old certificate. Every such transfer of stock shall be entered on the stock books of the corporation which shall be kept at its principal office or by the person and the place designated by the board of directors.

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

SECTION 5. TRANSFER AGENT, REGISTRARS AND PAYING AGENTS. The board of directors may at its discretion appoint one or more transfer agents, registrars and agents for making payment upon any class of stock, bond, debenture or other security of the corporation. Such agents and registrars may be located either within or outside Colorado. They shall have such rights and duties and shall be entitled to such compensation as may be agreed.

ARTICLE VI
INDEMNIFICATION OF CERTAIN PERSONS

SECTION 1. INDEMNIFICATION. For purposes of Article VI, a "Proper Person" means any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, and whether formal or informal, by reason of the fact that he is or was a director, officer, employee, fiduciary or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary or agent of any foreign or domestic profit or nonprofit corporation or of any partnership, joint venture, trust, profit or nonprofit unincorporated association, limited liability company, or other enterprise or employee benefit plan. The corporation shall indemnify any Proper Person against reasonably incurred expenses (including attorneys' fees), judgments, penalties, fines (including any excise tax assessed with respect to an employee benefit plan) and amounts paid in settlement reasonably incurred by him in connection with such action, suit or proceeding if it is determined by the groups set forth in Section 4 of this Article VI that he conducted himself in good faith and that he reasonably believed (i) in the case of conduct in his official capacity with the corporation, that his conduct was in the corporation's best interests, or (ii) in all other cases (except criminal cases), that his conduct was at least not opposed to the corporation's best interests, or (iii) in the case of any criminal proceeding, that he had no reasonable cause to believe his conduct was unlawful. A Proper Person will be deemed to be acting in his official capacity while acting as a director, officer, employee or agent on behalf of this corporation and not while acting on this corporation's behalf for some other entity.

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

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

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

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

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

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

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

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

ARTICLE VII
PROVISION OF INSURANCE

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

ARTICLE VIII
MISCELLANEOUS

SECTION 1. SEAL. The corporate seal of the corporation shall be circular in form and shall contain the name of the corporation and the words, "Seal, Colorado."

SECTION 2. FISCAL YEAR. The fiscal year of the corporation shall be as established by the board of directors.

SECTION 3. AMENDMENTS. Except as hereinafter stated, the board of directors shall have power, to the maximum extent permitted by the Colorado Business Corporation Act, to make, amend and repeal the bylaws of the corporation at any regular or special meeting of the board of directors unless the shareholders, in making, amending or repealing a particular bylaw, expressly provide that the directors may not amend or repeal such bylaw. The directors may not amend Sections 2 or 3 of Article III, Article VI or Section 3 of Article VIII of the bylaws. Sections 2 and 3 of Article III, Article VI and Section 3 of Article VIII of the bylaws can only be

amended or repealed by 80% of the votes of the shareholders entitled to be cast thereon. The shareholders also shall have the power to make, amend or repeal the bylaws of the corporation at any annual meeting or at any special meeting called for that purpose.

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

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

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

[End of bylaws]

EXHIBIT 4.01

NUMBER - ---------- - ----------

WARRANT ----------- -----------

VOID AFTER _____, 2006
WARRANT TO
PURCHASE COMMON STOCK

CUSIP NO. _____________

NATURAL GAS SERVICES GROUP, INC.

THIS CERTIFIES that, for value received

or registered assigned (the "Registered Holder"), is the owner of the number of common stock purchase warrants ("Warrants") specified above. Each Warrant initially entitled the Registered Holder to purchase, subject to the terms and conditions set forth in this Certificate and the Warrant Agent Agreement (as hereinafter defined), one (1) fully paid and nonassessable share of Common Stock, par value $0.01 ("Common Stock"), of Natural Gas Services Group, Inc., a Colorado corporation (the "Company"), at any time prior to the Expiration Date (as hereinafter defined), upon the presentation and surrender of this Warrant Certificate, with the Subscription Form on the reverse hereof, duly executed at the corporate office of Computershare Trust Company, Inc., as Warrant Agent or its successor (the "Warrant Agent"), accompanied by payment of $____ (the "Purchase Price"), in lawful money of the Untied States of America in cash or by official bank or certified check made payable to the order of the Company.

This Warrant Certificate and each Warrant represented hereby are issued pursuant to and are subject in all respects to the terms and conditions set forth in the Warrant Agent Agreement dated _______, 2002 (the "Warrant Agent Agreement"), by and among the Company and the Warrant Agent.

COPIES OF THE WARRANT AGENT AGREEMENT, WHICH DEFINES THE RIGHTS, RESPONSIBILITIES AND OBLIGATIONS OF THE COMPANY AND THE REGISTERED HOLDERS, ARE ON FILE WITH THE WARRANT AGENT. ANY REGISTERED HOLDER MAY OBTAIN A COPY OF THE WARRANT AGENT AGREEMENT, FREE OF CHARGE, BY A REQUEST TO THE PRINCIPAL OFFICE OF THE WARRANT AGENT.

In the event of certain contingencies provided for in the Warrant Agent Agreement, the Purchase Price, or the number of shares of Common Stock subject to purchase upon the exercise of each Warrant represented hereby, is subject to modification or adjustment.

THE TERMS AND PROVISIONS OF THIS CERTIFICATE ARE CONTINUED ON THE REVERSE SIDE HEREOF AND SUCH CONTINUED TERMS AND PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS THOUGH FULLY SET FORTH AT THIS PLACE.

This Warrant Certificate shall be governed by and construed in accordance with the laws of the State of Colorado.

This Warrant Certificate is not valid unless countersigned by the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed, manually or in facsimile, by two of its officers thereunto duly authorized and a facsimile of its corporate seal to be imprinted hereon.

NATURAL GAS SERVICES GROUP, INC.

Dated:

By:

President

Secretary

NATURAL GAS SERVICES GROUP, INC.
TRANSFER FEE: $20.00 PER CERTIFICATE ISSUED

Each Warrant represented hereby is exercisable at the option of the Registered Holder, but no fractional shares of Common Stock will be issued. In the case of the exercise of less than all the Warrants represented hereby, the Company shall cancel this Warrant Certificate upon the surrender hereof and shall execute and deliver a new Warrant Certificate or Warrant Certificates of like tenor, which the Warrant Agent shall countersign, for the balance of such Warrants.

The term "Expiration Date" shall mean 5:00 pm (Denver, Colorado time) on ________, 2006, or such earlier date as the Warrants shall be redeemed. If such date shall in the State of Colorado be a holiday or a day on which the banks are authorized to close, then the Expiration Date shall mean 5:00 pm (Denver, Colorado time) the next following day which in the State of Colorado is not a holiday or a day on which banks are authorized to close.

The Warrants represented by this Certificate may not be exercised by a Registered Holder unless at the time of exercise the underlying shares of Common Stock are qualified for sale, by registration or otherwise, in the state where the Registered Holder resides or unless the issuance of the shares of Common Stock would be exempt under the applicable state securities laws. Although the underlying shares of Common Stock were qualified for sale in the states in which the Warrants were originally sold, the Company may not continue such qualifications for the life of the Warrants. Moreover, the Company may not qualify the underlying shares of Common Stock in any other states. Further, a registration statement under the Securities Act of 1933, as amended, covering the exercise of the Warrants must be in effect and current at the time of exercise unless the issuance of shares of Common Stock upon any exercise is exempt from the registration requirements of the Securities Act of 1933, as amended. Notwithstanding the provisions hereof, unless such registration statement and qualification are in effect and current at the time of exercise, or unless exemptions are available, the Company may decline to permit the exercise of the Warrants and the holder hereof would then only have the choice of either attempting to sell the Warrants, if a market existed therefor and the Warrants were duly registered under applicable securities laws or an exemption therefrom existed, or letting the Warrants expire.

This Warrant Certificate is exchangeable, upon the surrender hereof by the Registered Holder at the corporate office of the Warrant Agent, for a new Warrant Certificate or Warrant Certificates of like tenor representing an equal aggregate number of Warrants, each of such new Warrant Certificates to represent such number of Warrants as shall be designated by such Registered Holder at the time of such surrender. Upon due presentment with payment of any tax or other governmental charge imposed in connection therewith, for registration or transfer of this Warrant Certificate at such office, a new Warrant Certificate or Warrant Certificates representing an equal aggregate number of Warrants will be issued to the transferee in exchange therefor, subject to the limitations provided in the Warrant Agent Agreement.

Prior to the exercise of any Warrant represented hereby, the Registered Holder shall not be entitled to any rights of a shareholder of the Company, including, without limitation, the right to vote or to receive dividends or other distributions, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided in the Warrant Agent Agreement.

This Warrant may be redeemed at the option of the Company at a redemption price of $0.25 per Warrant at any time after _________, 2003, provided the market price (as defined in the Warrant Agent Agreement) for the securities issuable upon exercise of such Warrant shall during a period of 20 consecutive trading days immediately preceding notice of redemption trade at an average in excess of $____ per share, subject to adjustment as provided in the Warrant Agent Agreement. On and after the date fixed for redemption, the Registered Holder shall have no rights with respect to this Warrant except to receive the $0.25 per Warrant upon surrender of this Warrant Certificate.

Prior to due presentment for registration of transfer hereof, the Company and the Warrant Agent may deem and treat the Registered Holder as the absolute owner hereof and of each Warrant represented hereby (notwithstanding any notations of ownership or writing hereon made by anyone other than a duly authorized officer of the Company or the Warrant Agent) for all purposes and shall not be affected by any notice to the contrary.

EXERCISE FORM
TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO EXERCISE WARRANTS EVIDENCED FROM ATTACHMENT HEREBY

The undersigned Registered Holder hereby irrevocably elects to exercise _____________ Warrants represented by this Warrant Certificate, and to purchase the Common Stock issuable upon the exercise of such Warrants, and requests that certificates for such Common Stock shall be issued in the name of:

____

____

Please print or type name and address, including zip code
with the following Social Security or other identifying number_________________
and be delivered to:

____

____

Please print or type name and address, including zip code
and if such number of Warrants shall be all the Warrants evidenced by this Warrant Certificate, that a new Warrant Certificate for the balance of such Warrants be registered in the name of, and delivered to, the Registered Holder at the address stated below.

Dated: ___________________ Signatures: X_______________________________
Signature(s) Guaranteed:* X_______________________________
Address: _______________________________

______________________________   ____________________________________

ASSIGNMENT FORM

TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO TRANSFER WARRANTS EVIDENCED HEREBY

For value received, the undersigned Registered Holder hereby irrevocably sells, assigns and transfers _____________ Warrants represented by this Warrant Certificate, and requests that a new Warrant Certificate be issued in the name of:

____

____

Please print or type name and address, including zip code

with the following Social Security or other identifying number _________________

and does hereby irrevocably constitute and appoint the Warrant Agent to transfer this Warrant Certificate on the books of the Company, with full power of substitution in the premises, and if such number of Warrants shall not be all the warrants evidence by this Warrant Certificate, that a new Warrant Certificate for the balance of such Warrants be registered in the name of, and delivered to, the Registered Holder at the address stated below:

Dated: ___________________   Signatures: X_______________________________

Signature(s) Guaranteed:*   X_______________________________

                                    Address: _______________________________

______________________________   ____________________________________

*The signature(s) must be guaranteed by an eligible guarantor institution (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions with membership in an approved signature guarantee Medallion Program) pursuant to S.E.C. Rule 17Ad-15.

EXHIBIT 4.02

WARRANT AGENT AGREEMENT

NATURAL GAS SERVICES GROUP, INC.

AND

COMPUTERSHARE TRUST COMPANY, INC.

WARRANT AGENT

June ___, 2002

THIS AGREEMENT dated as of _______________, 2002, between NATURAL GAS SERVICES GROUP, INC., a Colorado corporation (the "Company"), and COMPUTERSHARE TRUST COMPANY, INC., a transfer agency located in Golden, Colorado (the "Warrant Agent").

WHEREAS: The Company is conducting a public offering (the "Public Offering") of 1,650,000 shares (the "Firm Shares") of Common Stock of the Company ("Common Stock") and 1,650,000 warrants ("Firm Warrants"), one Warrant entitling the Registered Owner thereof to purchase one share of Common Stock, or an aggregate of 1,650,000 shares of Common Stock of the Company on exercise of all Firm Warrants; and

The Company also is granting the several underwriters (the "Underwriters") of the Company's Public Offering pursuant to an underwriting agreement (the "Underwriting Agreement"), the option to purchase up to an additional 247,500 shares (the "Over-Allotment Shares") and 247,500 warrants (the "Over-Allotment Warrants") exercisable to purchase up to an aggregate of 247,500 shares of Common Stock; and

The Company desires to provide for the issuance, registration, transfer, exchange and exercise of certificates (the "Warrant Certificates") representing the Firm Warrants and the Over-Allotment Warrants (collectively, herein, the "Warrants") and for the exercise of the Warrants;

NOW, THEREFORE, in consideration of the premises and the mutual agreements hereinafter set forth and for the purpose of defining the terms and provisions of the Warrant Certificates and the Warrants, and the respective rights and obligations thereunder of the Company, the registered holders of the Warrant Certificates and the Warrant Agent, the parties hereto agree as follows:

1. DEFINITIONS. As used herein:

(a) "Common Stock" shall mean Common Stock, of the Company, whether now or hereafter authorized, holders of which have the right to participate in the distribution of earnings and assets of the Company without limit as to amount or percentage.

(b) "Corporate Office" shall mean the place of business of the Warrant Agent (or its successor) located in Denver, Colorado, which office is presently located at 350 Indiana Street, Suite 800, Golden, Colorado 80401.

(c) "Effective Date" shall mean ___________________, 2002, the date on which the Company's Registration Statement is declared effective by the Securities and Exchange Commission.

(d) "Exercise Date" shall mean the date of surrender for exercise of any Warrant Certificate, provided the exercise form on the back of the Warrant Certificate or a form substantially similar thereto has been completed in full by the Registered Owner or a duly

appointed attorney and the Warrant Certificate is accompanied by payment in full of the Exercise Price.

(e) "Exercise Period" shall mean the period commencing on the Effective Date and extending to and through the Expiration Date.

(f) "Exercise Price" shall mean a purchase price of $____ per share of Common Stock (125% of the offering price for one Firm Share); provided, however, that in the event the Company reduces the Exercise Price in accordance with Section 9(i) hereof, the Exercise Price shall be as established by the Company in accordance with such Section.

(g) "Expiration Date" shall mean 5:00 P.M. Mountain Time on the last day of the 4 year period commencing on the Effective Date, subject to the terms provided in Section 5 herein for redemption; provided however, if such date shall be a holiday or a day on which banks are authorized to close, then the Expiration Date shall mean 5:00 p.m., Mountain Time on the next following day which in the State of Colorado is not a holiday or a day on which banks are authorized to close. If the Company redeems the Warrants as provided in Section 5 of this Agreement, the Expiration Date shall be the date fixed for redemption.

(h) "Firm Warrants" shall mean 1,650,000 Warrants to purchase 1,650,000 shares of Common Stock, all of which will be purchased by the Underwriter from the Company and sold in the Public Offering in accordance with the Underwriting Agreement.

(i) "Over-Allotment Warrants" shall mean 247,500 Warrants to purchase 247,500 shares of Common Stock, any or all of which may be purchased by the Representative for the several Underwriters from the Company in accordance with the Underwriting Agreement. The Over-Allotment Warrants shall have identical terms and conditions to those established for the Firm Warrants, subject to their issuance in accordance with Section 2 hereof.

(j) "Representative" shall mean Neidiger/Tucker/Brunder, Inc., the representative of the several Underwriters.

(k) "Registered Owner" shall mean the person in whose name any Warrant Certificate shall be registered on the books maintained by the Warrant Agent pursuant to Section 6 of this Agreement.

(l) "Registration Statement" shall mean the Company's Registration Statement on Form SB-2 (S.E.C. File No. ________), as amended.

(m) "Subsidiary" shall mean any corporation of which shares having ordinary voting power to elect a majority of the Board of Directors of such corporation (regardless of whether the shares of any other class or classes of such corporation shall have or may have voting power by reason of the happening of any contingency) are at the time directly or indirectly owned by the Company or one or more subsidiaries of the Company.

(n) "Warrant" or the "Warrants" shall mean and include up to 1,897,500 Warrants to purchase 1,897,500 authorized and unissued Shares of Common Stock of the Company and, unless otherwise noted, shall include 1,650,000 Firm Warrants and 247,500 Over-Allotment Warrants.

(o) "Warrant Agent" shall mean Computershare Investor Services, Inc., or its successor, as the transfer agent and registrar of the Warrants.

(p) "Warrant Shares" shall mean and include up to 1,897,500 authorized and unissued shares of Common Stock reserved for issuance on exercise of the Warrants, and unless otherwise noted, shall include 1,650,000 shares of Common Stock issuable upon exercise of the Firm Warrants and 247,500 shares of Common Stock issuable upon exercise of the Over-Allotment Warrants and any additional shares of Common Stock or other property which may hereafter be issuable or deliverable on exercise of the Warrants pursuant to Section 9 of this Agreement.

2. WARRANTS AND ISSUANCE OF WARRANT CERTIFICATES. Each Warrant shall initially entitle the Registered Owner of the Warrant Certificate representing such Warrant to purchase one share of Common Stock on exercise thereof, subject to modification and adjustment as hereinafter provided in Section 9. Warrant Certificates representing 1,650,000 Firm Warrants and evidencing the right to purchase an aggregate of 1,650,000 shares of Common Stock of the Company shall be executed by the proper officers of the Company and delivered to the Warrant Agent for countersignature. Certificates representing the Firm Warrants to be delivered to the Warrant Agent shall be in direct relation to the Firm Shares sold in the Company's Public Offering and shall be attached to certificates representing an equal number of Firm Shares. The Warrant Certificates representing the Firm Warrants will be issued and delivered on written order of the Company signed by the proper officers of the Company. The Warrant Agent shall deliver Warrant Certificates in required whole number denominations to the persons entitled thereto in connection with any transfer or exchange permitted under this Agreement.

The Over-Allotment Warrants shall carry identical terms and conditions to those established for the Firm Warrants and outlined herein. Up to 247,500 Over-Allotment Warrants may be issued and such Over-Allotment Warrants shall evidence the right of the Registered Owners thereof to purchase an aggregate of up to 247,500 shares of Common Stock of the Company. Any Warrant Certificates for Over-Allotment Warrants to be issued will be issued and delivered on written order of the Company signed by the proper officers of the Company on exercise of the option to purchase Over-Allotment Warrants by the several Underwriters in accordance with the Underwriting Agreement.

Except as provided in Section 8 hereof, share certificates representing the Warrant Shares shall be issued only on or after the Exercise Date on exercise of the Warrants or on transfer or exchange of the Warrant Shares. The Warrant Agent, if other than the Company's Transfer Agent, shall arrange with the Transfer Agent for the issuance and registration of all Warrant Shares.

3. FORM AND EXECUTION OF WARRANT CERTIFICATES. The Warrant Certificates shall be substantially in the form attached as Exhibit "A" and may have such letters, numbers or other marks of identification and such legends, summaries or endorsements printed, lithographed or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement. The Warrant Certificates shall be dated as of the date of issuance, whether on initial issuance, transfer, exchange or in lieu of mutilated, lost, stolen or destroyed Warrant Certificates.

Each Warrant Certificate for Firm Warrants shall be separately transferable from the certificate representing Firm Shares immediately upon issuance.

The Warrant Certificates shall be executed on behalf of the Company by its duly authorized officers, by manual signatures or by facsimile signatures printed thereon, and shall have imprinted thereon a facsimile of the Company's seal. The Warrant Certificates shall be manually countersigned by the Warrant Agent and shall not be valid for any purpose unless so countersigned. In the event any officer of the Company who executed the Warrant Certificates shall cease to be an officer of the Company before the date of issuance of the Warrant Certificates or before countersignature and delivery by the Warrant Agent, such Warrant Certificates may be countersigned, issued and delivered by the Warrant Agent with the same force and effect as though the person who signed such Warrant Certificates had not ceased to be an officer of the Company.

4. EXERCISE. The exercise of Warrants in accordance with this Agreement shall only be permitted during the Exercise Period.

Warrants shall be deemed to have been exercised immediately prior to the close of business on the Exercise Date. The exercise form shall be executed by the Registered Owner thereof or the Registered Owner's attorney duly authorized in writing and shall be delivered together with payment to the Warrant Agent, in cash or by official bank or certified check, of an amount in lawful money of the United States of America. Such payment shall be in an amount equal to the Exercise Price as hereinabove defined.

The person entitled to receive the number of Warrant Shares deliverable on such exercise shall be treated for all purposes as the Registered Owner of such Warrant Shares as of the close of business on the Exercise Date. The Company shall not be obligated to issue any fractional share interests in Warrant Shares. If Warrants represented by more than one Warrant Certificate shall be exercised at one time by the same Registered Owner, the number of full Warrant Shares which shall be issuable on exercise thereof shall be computed on the basis of the aggregate number of full Warrant Shares issuable on such exercise.

As soon as practicable on or after the Exercise Date and in any event within 30 days after such date, the Warrant Agent shall cause to be issued and delivered by the Transfer Agent to the person or persons entitled to receive the same, a certificate or certificates for the number of Warrant Shares deliverable on such exercise. No adjustment shall be made in respect of cash dividends on Warrant Shares deliverable on exercise of any Warrant. The Warrant Agent shall promptly notify the Company in writing of any exercise and of the number of Warrant Shares

caused to be delivered and shall cause payment of an amount in cash equal to the Exercise Price to be made promptly to the order of the Company. The parties contemplate such payments will be made by the Warrant Agent to the Company on a weekly basis and will consist of collected funds only. The Warrant Agent shall hold any proceeds collected and not yet paid to the Company in a Federally-insured escrow account at a commercial bank selected by agreement of the Company and the Warrant Agent, at all times relevant hereto. Following a determination by the Warrant Agent that collected funds have been received, the Warrant Agent shall cause the Transfer Agent to issue share certificates representing the number of Warrant Shares purchased by the Registered Owner.

Expenses incurred by the Warrant Agent, including administrative costs, and the standard fees imposed by the Warrant Agent for the Warrant Agent's services, shall be paid by the Company and shall be deducted from the Escrow Account prior to distribution of funds to the Company.

A detailed accounting statement setting forth the number of Warrants exercised, the number of Warrant Shares issued, the net amount of exercised funds and all expenses incurred by the Warrant Agent shall be transmitted to the Company on payment of each exercise amount. Such accounting statement shall serve as an interim accounting for the Company during the Exercise Period. The Warrant Agent shall render to the Company, at the completion of the Exercise Period, a complete accounting setting forth the number of Warrants exercised, the identity of persons exercising such Warrants, the number of Warrant Shares issued, the amounts distributed to the Company, and all expenses incurred by the Warrant Agent.

The Company may be required to deliver a prospectus that satisfies the requirements of Section 10 of the Securities Act of 1933, as amended (the "1933 Act") with delivery of the Warrant Shares and must have a registration statement (or a post-effective amendment to an existing registration statement) effective under the 1933 Act in order for the Company to comply with any such prospectus delivery requirements. The Company will advise the Warrant Agent of the status of any such registration statement under the 1933 Act and of the effectiveness of the Company's registration statement or lapse of effectiveness.

No issuance of Warrant Shares shall be made unless there is an effective registration statement under the 1933 Act, and registration or qualification of the Warrant Shares, or an exemption therefrom, has been obtained from state or other regulatory authorities in the jurisdiction in which such Warrant Shares are sold. The Company will provide to the Warrant Agent written confirmation of all such registration or qualification, or an exemption therefrom, when requested by the Warrant Agent.

5. REDEMPTION. Commencing one year from the Effective Date, the Company may, at its option, redeem the Warrants in whole, but not in part, for a redemption price of $0.25 per Warrant, on not less than 30 days' notice to the Registered Owners. The right to redeem the Warrants may be exercised by the Company following such one year period and during the Exercise Period only in the event (i) the closing bid price for Company's shares of Common Stock has equaled or exceeded [$] (175% of the Warrant Exercise Price) for 20 consecutive trading days, (ii) any notice of the call for redemption is given not more than five (5) business

days after the conclusion of the 20 consecutive trading days referred to in the foregoing (i), (iii) the Company has a registration statement (or a post-effective amendment to an existing registration statement) pertaining to the Warrant Shares effective with the Securities and Exchange Commission, which registration statement would enable a Registered Owner to exercise the Warrants, and (iv) the expiration of the 30 day notice period is within the Exercise Period. In the event the Company exercises its right to redeem the Warrants, the Expiration Date will be deemed to be, and the Warrants will be exercisable until the close of business on, the date fixed for redemption in such notice. If any Warrant called for redemption is not exercised by such time, it will cease to be exercisable and the Registered Owner thereof will be entitled only to the redemption price.

6. RESERVATION OF SHARES AND PAYMENT OF TAXES. The Company covenants that it will at all times reserve and have available from its authorized shares of Common Stock such number of shares of Common Stock as shall then be issuable on exercise of all outstanding Warrants. The Company covenants that all Warrant Shares issuable shall be duly and validly issued, fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issue thereof.

The Registered Owner shall pay all documentary, stamp or similar taxes and other government charges that may be imposed with respect to the issuance of the Warrants, or the issuance, transfer or delivery of any Warrant Shares on exercise of the Warrants. In the event the Warrant Shares are to be delivered in a name other than the name of the Registered Owner of the Warrant Certificates, no such delivery shall be made unless the person requesting the same has paid to the Warrant Agent or Transfer Agent the amount of any such taxes or charges incident thereto.

The Company will supply the Warrant Agent with blank Warrant Certificates, so as to maintain an inventory satisfactory to the Warrant Agent. The Company will file with the Warrant Agent a statement setting forth the name and address of its Transfer Agent for Warrant Shares and of each successor Transfer Agent, if any.

7. REGISTRATION OF TRANSFER. The Warrant Certificates may be transferred in whole or in part, at any time during the Exercise Period. Warrant Certificates to be exchanged shall be surrendered to the Warrant Agent at its corporate office. The Company shall execute and the Warrant Agent shall countersign, issue and deliver in exchange therefor, the Warrant Certificate or Certificates which the holder making the transfer shall be entitled to receive.

The Warrant Agent shall keep transfer books at its corporate office on which Warrant Certificates and the transfer thereof shall be registered. On due presentment for registration of transfer of any Warrant Certificate at such office, the Company shall execute and the Warrant Agent shall issue and deliver to the transferee or transferees a new Warrant Certificate or Certificates representing an equal aggregate number of Warrants.

All Warrant Certificates presented for registration of transfer or exercise shall be duly endorsed or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Company and the Warrant Agent.

Prior to due presentment for registration of transfer thereof, the Company and the Warrant Agent may treat the Registered Owner of any Warrant Certificate as the absolute owner thereof (notwithstanding any notations of ownership or writing thereon made by anyone other than the Company or the Warrant Agent) and the parties hereto shall not be affected by any notice to the contrary.

8. LOSS OR MUTILATION. On receipt by the Company and the Warrant Agent of evidence satisfactory as to the ownership of and the loss, theft, destruction or mutilation of any Warrant Certificate, the Company shall execute and the Warrant Agent shall countersign and deliver in lieu thereof, a new Warrant Certificate representing an equal aggregate number of Warrants. In the case of loss, theft or destruction of any Warrant Certificate, the Registered Owner requesting issuance of a new Warrant Certificate shall be required to secure an indemnity bond from an approved surety bonding company in favor of the Company and Warrant Agent in an amount satisfactory to each of them. In the event a Warrant Certificate is mutilated, such Certificate shall be surrendered and cancelled by the Warrant Agent prior to delivery of a new Warrant Certificate. Applicants for a substitute Warrant Certificate shall also comply with such other regulations and pay such other reasonable charges as the Company may prescribe.

9. ADJUSTMENT OF EXERCISE PRICE AND SHARES.

(a) If at any time prior to the expiration of the Warrants by their terms or by exercise, the Company increases or decreases the number of its issued and outstanding shares of Common Stock, or changes in any way the rights and privileges of such shares of Common Stock, by means of (i) the payment of a share dividend or the making of any other distribution on such shares of Common Stock payable in its shares of Common Stock, (ii) a split or subdivision of shares of Common Stock, or (iii) a consolidation or combination of shares of Common Stock, then the Exercise Price in effect at the time of such action and the number of Warrants required to purchase each Warrant Share at that time shall be proportionately adjusted so that the numbers, rights and privileges relating to the Warrant Shares then purchasable upon the exercise of the Warrants shall be increased, decreased or changed in like manner, for the same aggregate purchase price set forth in the Warrants, as if the Warrant Shares purchasable upon the exercise of the Warrants immediately prior to the event had been issued, outstanding, fully paid and nonassessable at the time of that event. Any dividend paid or distributed on the shares of Common Stock in shares of any other class of shares of the Company or securities convertible into shares of Common Stock shall be treated as a dividend paid in shares of Common Stock to the extent shares of Common Stock are issuable on the payment or conversion thereof.

(b) In the event, prior to the expiration of the Warrants by exercise or by their terms, the Company shall be recapitalized by reclassifying its outstanding shares of Common Stock into shares with a different par value, or by changing its outstanding shares of Common Stock to shares without par value or in the event of any other material change in the capital structure of the Company or of any successor corporation by reason of any reclassification, recapitalization or conveyance, prompt, proportionate, equitable, lawful and adequate provision shall be made whereby any Registered Owner of the Warrants shall thereafter have the right to purchase, on the basis and the terms and conditions specified in this Agreement, in lieu of the Warrant Shares

theretofore purchasable on the exercise of any Warrant, such securities or assets as may be issued or payable with respect to or in exchange for the number of Warrant Shares theretofore purchasable on exercise of the Warrants had such reclassification, recapitalization or conveyance not taken place; and in any such event, the rights of any Registered Owner of a Warrant to any adjustment in the number of Warrant Shares purchasable on exercise of such Warrant, as set forth above, shall continue and be preserved in respect of any stock, securities or assets which the Registered Owner becomes entitled to purchase.

(c) In the event the Company, at any time while the Warrants shall remain unexpired and unexercised, shall sell all or substantially all of its property, or dissolves, liquidates or winds up its affairs, prompt, proportionate, equitable, lawful and adequate provision shall be made as part of the terms of such sale, dissolution, liquidation or winding up such that the Registered Owner of a Warrant may thereafter receive, on exercise thereof, in lieu of each Warrant Share which the Registered Owner would have been entitled to receive, the same kind and amount of any stock, securities or assets as may be issuable, distributable or payable on any such sale, dissolution, liquidation or winding up with respect to each share of Common Stock of the Company; provided, however, that in the event of any such sale, dissolution, liquidation or winding up, the right to exercise the Warrants shall terminate on a date fixed by the Company, such date to be not earlier than 5:00 P.M., Mountain Time, on the 30th day next succeeding the date on which notice of such termination of the right to exercise the Warrants has been given by mail to the Registered Owners thereof at such addresses as may appear on the books of the Company.

(d) On exercise of the Warrants by the Registered Owners, the Company shall not be required to deliver fractions of Warrant Shares; provided, however, that the Company shall make prompt, proportionate, equitable, lawful and adequate provisions in respect of any such fraction of one Warrant Share either on the basis of adjustment in the then applicable Exercise Price or a purchase of the fractional interest at the price of the Company's shares of Common Stock or such other reasonable basis as the Company may determine.

(e) In the event, prior to expiration of the Warrants by exercise or by their terms, the Company shall determine to take a record of the holders of its shares of Common Stock for the purpose of determining shareholders entitled to receive any stock dividend, distribution or other right which will cause any change or adjustment in the number, amount, price or nature of the shares of Common Stock or other stock, securities or assets deliverable on exercise of the Warrants pursuant to the foregoing provisions, the Company shall give to the Registered Owners of the Warrants at the addresses as may appear on the books of the Company at least 10 days' prior written notice to the effect that it intends to take such a record. Such notice shall specify the date as of which such record is to be taken; the purpose for which such record is to be taken; and the number, amount, price and nature of the shares of Common Stock or other stock, securities or assets which will be deliverable on exercise of the Warrants after the action for which such record will be taken has been completed. Without limiting the obligation of the Company to provide notice to the Registered Owners of the Warrants of any corporate action hereunder, the failure of the Company to give notice shall not invalidate such corporate action of the Company.

(f) The Warrants shall not entitle the Registered Owner thereof to any of the rights of shareholders or to any dividend declared on the shares of Common Stock unless the Warrant is exercised and the Warrant Shares purchased prior to the record date fixed by the Board of Directors of the Company for the determination of holders of shares of Common Stock entitled to such dividend or other right.

(g) The Company shall be empowered, in the sole and unconditional discretion of the Board of Directors, at any time during the Exercise Period, to reduce the applicable Exercise Price of the Warrants. Any reduction in the applicable Exercise Price shall be effective upon written notice to the Warrant Agent, which notice shall be given pursuant to a duly and validly authorized resolution of the Board of Directors of the Company. Any such reduction in the Exercise Price shall not entitle the Registered Owners to issuance of any additional Common Shares pursuant to the adjustment provisions set forth elsewhere herein, regardless of whether the reduction in the Exercise Price was effected either prior to or following exercise of Warrants by the Registered Owners thereof. A nonexercising Registered Owner shall have no remedy or rights to receive any additional Warrant Shares as a result of any reduction in any applicable Exercise Price pursuant to this subsection.

10. DUTIES, COMPENSATION AND TERMINATION OF WARRANT AGENT.

The Warrant Agent shall act hereunder as agent and in a ministerial capacity for the Company, and its duties shall be determined solely by the provisions hereof. The Warrant Agent shall not, by issuing and delivering Warrant Certificates or by any other act hereunder, be deemed to make any representations as to the validity, value or authorization of the Warrant Certificate or the Warrants represented thereby or of the Warrant Shares or other property delivered on exercise of any Warrant. The Warrant Agent shall not be under any duty or responsibility to any holder of the Warrant Certificates to make or cause to be made any adjustment of the Exercise Price or to determine whether any fact exists which may require any such adjustment.

The Warrant Agent shall not (i) be liable for any recital or statement of fact contained herein or for any action taken or omitted by it in reliance on any Warrant Certificate or other document or instrument believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties, (ii) be responsible for any failure on the part of the Company to comply with any of its covenants and obligations contained in this Agreement or in the Warrant Certificates, or (iii) be liable for any act or omission in connection with this Agreement except for its own negligence or willful misconduct.

The Warrant Agent may at any time consult with counsel satisfactory to it (who may be counsel for the Company) and shall incur no liability or responsibility for any action taken or omitted by it in good faith in accordance with the opinion or advice of such counsel.

Any notice, statement, instruction, request, direction, order or demand of the Company shall be sufficiently evidenced by an instrument signed by an officer of the Company. The Warrant Agent shall not be liable for any action taken or omitted by it in accordance with such notice, statement, instruction, request, direction, order or demand.

The Company agrees to pay the Warrant Agent reasonable compensation for its services hereunder and to reimburse the Warrant Agent for its reasonable expenses. The Company further agrees to indemnify the Warrant Agent against any and all losses, expenses and liabilities, including judgments, costs and counsel fees, for any action taken or omitted by the Warrant Agent in the execution of its duties and powers hereunder, excepting losses, expenses and liabilities arising as a result of the Warrant Agent's negligence or willful misconduct.

The Warrant Agent may resign its duties or the Company may terminate the Warrant Agent and the Warrant Agent shall be discharged from all further duties and liabilities hereunder (except liabilities arising as a result of the Warrant Agent's own negligence or willful misconduct) on 30 days' prior written notice to the other party. Upon notice by the Company to the Warrant Agent, the Warrant Agent shall cause a copy of such notice of resignation to be mailed to the Registered Owner of each Warrant Certificate. The expenses the Warrant Agent incurs in mailing such notice shall be paid by the Company. On such resignation or termination, the Company shall appoint a new Warrant Agent. If the Company shall fail to make such appointment within a period of 30 days after it has been notified in writing of the resignation by the Warrant Agent, then the Registered Owner of any Warrant Certificate may apply to any court of competent jurisdiction for the appointment of a new Warrant Agent. Any new Warrant Agent, whether appointed by the Company or by such court, shall be a bank or trust company having a capital and surplus, as shown by its last published report to its shareholders, of not less than $1,000,000, and having its principal office in the United States.

After acceptance in writing of an appointment of a new Warrant Agent is received by the Company, such new Warrant Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as the Warrant Agent, without any further assurance, conveyance, act or deed; provided, however, if it shall be necessary or expedient to execute and deliver any further assurance, conveyance, act or deed, the same shall be done at the expense of the Company and shall be legally and validly executed. The Company shall file a notice of appointment of a new Warrant Agent with the resigning Warrant Agent and shall forthwith cause a copy of such notice to be mailed to the Registered Owner of each Warrant Certificate.

Any corporation into which the Warrant Agent or any new Warrant Agent may be converted or merged, or any corporation resulting from any consolidation to which the Warrant Agent or any new Warrant Agent shall be a party, or any corporation succeeding to the corporate trust business of the Warrant Agent shall be a successor Warrant Agent under this Agreement, provided that such corporation is eligible for appointment as a successor to the Warrant Agent. Any such successor Warrant Agent shall promptly cause notice of its succession as Warrant Agent to be mailed to the Company and to the Registered Owner of each Warrant Certificate. No further action shall be required for establishment and authorization of such successor Warrant Agent.

The Warrant Agent, its officers or directors and it subsidiaries or affiliates may buy, hold or sell Warrants or other securities of the Company and otherwise deal with the Company in the

same manner and to the same extent and with like effect as though it were not the Warrant Agent. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company.

11. MODIFICATION OF AGREEMENT. The Warrant Agent and the Company may by supplemental agreement make any changes or corrections in this Agreement they shall deem appropriate to cure any ambiguity or to correct any defective or inconsistent provision or mistake or error herein contained. Additionally, the parties may make any changes or corrections deemed necessary which shall not adversely affect the interests of the Registered Owners of Warrant Certificates; provided, however, this Agreement shall not otherwise be modified, supplemented or altered in any respect except with the consent in writing of the Registered Owners of Warrant Certificates representing not less than a majority of the Warrants outstanding. Additionally, no change in the number or nature of the Warrant Shares purchasable on exercise of a Warrant or the Exercise Price therefor shall be made without the consent in writing of the Registered Owner of the Warrant Certificate representing such Warrant, other than such changes as are specifically prescribed by this Agreement.

12. NOTICES. All notices, demands, elections, opinions or requests (however characterized or described) required or authorized hereunder shall be deemed given sufficiently in writing and sent by registered or certified mail, return receipt requested and postage prepaid, or by tested telex, telegram or cable to:

in the case of the Company:

Natural Gas Services Group, Inc.
2911 South County Road 1260
Midland, Texas 79706

and in the case of the Warrant Agent:

Computershare Trust Company, Inc.
350 Indiana Street, Suite 800
Golden, Colorado 80401

with a copy to:

Thomas S. Smith, Esq.
Dorsey & Whitney, LLP
370 17th Street, Suite 4700
Denver, Colorado 80202

and, if requested by the Company to the Registered Owner of a Warrant Certificate, at the address of such Registered Owner as set forth on the books maintained by the Warrant Agent.

13. PERSONS BENEFITING. This Agreement shall be binding upon and inure to the benefit of the Company, the Warrant Agent and their respective successors and assigns, and

the Registered Owners and beneficial owners from time to time of the Warrant Certificates. Nothing in this Agreement is intended or shall be construed to confer on any other person any right, remedy or claim or to impose on any other person any duty, liability or obligation.

14. FURTHER INSTRUMENTS. The parties shall execute and deliver any and all such other instruments and shall take any and all such other actions as may be reasonable or necessary to carry out the intention of this Agreement.

15. SEVERABILITY. If any provision of this Agreement shall be held, declared or pronounced void, voidable, invalid, unenforceable or inoperative for any reason by any court of competent jurisdiction, government authority or otherwise, such holding, declaration or pronouncement shall not affect adversely any other provision of this Agreement, which shall otherwise remain in full force and effect and be enforced in accordance with its terms, and the effect of such holding, declaration or pronouncement shall be limited to the territory or jurisdiction in which made.

16. WAIVER. All the rights and remedies of either party under this Agreement are cumulative and not exclusive of any other rights and remedies as provided by law. No delay or failure on the part of either party in the exercise of any right or remedy arising from a breach of this Agreement shall operate as a waiver of any subsequent right or remedy arising from a subsequent breach of this Agreement. The consent of any party where required hereunder to any act or occurrence shall not be deemed to be a consent to any other action or occurrence.

17. GENERAL PROVISIONS. This Agreement shall be construed and enforced in accordance with, and governed by, the laws of the State of Colorado. Except as otherwise expressly stated herein, time is of the essence in performing hereunder. This Agreement embodies the entire agreement and understanding between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof, and this Agreement may not be modified or amended or any term or provision hereof waived or discharged except in writing signed by the party against whom such amendment, modification, waiver or discharge is sought to be enforced. The headings of this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning thereof. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above mentioned.

THE COMPANY:

NATURAL GAS SERVICES GROUP, INC.

By: ___________________________________
Wayne L. Vinson, President

ATTEST:

____
Earl R. Wait, Secretary

THE WARRANT AGENT:

COMPUTERSHARE INVESTOR SERVICES, INC.

By: ___________________________________

ATTEST:

____
Secretary

Exhibit 4.03

April , 2002

Neidiger, Tucker, Bruner, Inc.
1675 Larimer Street, Suite 300
Denver, Colorado 80202

Re: Natural Gas Services Group, Inc.

Ladies and Gentlemen:

Reference is made to a proposed public offering of shares of common stock and warrants (the "Public Securities") by Natural Gas Services Group, Inc. (the "Company") pursuant to a Registration Statement (the "Registration Statement") and prospectus included therein to be filed with the Securities and Exchange Commission and to be underwritten by Neidiger/Tucker/Bruner, Inc. as the managing underwriter (the "Underwriter") named in an underwriting agreement.

In consideration of the offer and sale of the Public Securities by the Company and the Underwriter and of other valuable consideration, the receipt of which is hereby acknowledged, the undersigned agrees not to offer, sell (including engaging in a short sale), contract to sell, pledge, hypothecate, grant any option to purchase or otherwise dispose of any shares of common stock of the Company or any securities convertible into or exchangeable for common stock of the Company beneficially owned or otherwise held by the undersigned as of the date of this letter or acquired on or prior to the date of effectiveness of the Registration Statement or issuable upon exercise of options or warrants held by the undersigned on such dates (collectively, the "Shares") for the period specified hereafter without the prior written consent of the Underwriter. Such restrictions shall apply to the total number of Shares held by the undersigned for a period of one year after the date of the effective date of the Registration Statement.

As a reasonable means of ensuring compliance with the terms of this Agreement, the undersigned further agrees that the Company may instruct the transfer agent for the Shares to place a transfer restriction on such transfer agent's records.

Notwithstanding the foregoing, if the undersigned is an individual, he or she may transfer any or all of the Shares either during his or her lifetime or on death by will or intestacy to his or her immediate family or to a trust, the beneficiaries of which are exclusively the undersigned and/or a member or members of his or her immediate family; provided, however, that in any such case it shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding the Shares subject to the provisions of this Agreement, and there shall be no further transfer of such Shares except in accordance with this

Agreement. For purposes of this paragraph, "immediate family" shall mean spouse, lineal descendant, father, mother, brother or sister of the transferor.

In addition, notwithstanding the foregoing, if the undersigned is a partnership, the partnership may transfer any Shares to a partner of such partnership or a retired partner of such partnership who retires after the date hereof, or to the estate of any such partner or retired partner, and any partner who is an individual may transfer Shares by gift, will or intestate succession to his or her immediate family (as defined above) or ancestors; and if the undersigned is a corporation, the corporation may transfer Shares to any shareholder of such corporation and any shareholder who is an individual may transfer Shares by gift, will or intestate succession to his or her immediate family (as defined above) or ancestors; provided, however, that in any such case, it shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding the Shares subject to the provisions of this Agreement, and there shall be no further transfer of such Shares except in accordance with this Agreement.

Finally, notwithstanding the foregoing, the Underwriter, in its sole discretion, may release from this Agreement any or all of the Shares or release from any agreement similar to this Agreement any shares of common stock owned by any other shareholder of the Company. Any such release must be in a writing signed by the Underwriter.

This agreement shall be enforceable by the Company and the Underwriter, or either of them, and shall bind and inure to the benefit of their respective successors, personal representatives, heirs, and assigns.

Very truly yours,

By:

________________________________ ________________________________

Shares of common stock subject to this Agreement

Signature

____

Printed name of person or entity

____

Title if signing for an entity

Exhibit 4.04

THE REPRESENTATIVE'S OPTION EVIDENCED AND REPRESENTED BY THIS CERTIFICATE (THE "REPRESENTATIVE'S OPTION") AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF (THE "OPTION SHARES") HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, PURSUANT TO A REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND WITH THE SECURITIES ADMINISTRATORS OF CERTAIN STATES UNDER THE SECURITIES ("BLUE SKY") LAWS OF SUCH STATES. HOWEVER, NEITHER THE REPRESENTATIVE'S OPTION NOR THE UNDERLYING COMMON STOCK MAY BE SOLD, TRANSFERRED, PLEDGED, OR HYPOTHECATED EXCEPT PURSUANT TO (I) A POST-EFFECTIVE AMENDMENT TO SUCH REGISTRATION STATEMENT, (II) A SEPARATE REGISTRATION STATEMENT UNDER SUCH ACT, OR (III) AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND UNDER THE APPLICABLE BLUE SKY LAWS.

THIS REPRESENTATIVE'S OPTION MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED EXCEPT AS OTHERWISE PROVIDED HEREIN AND THE HOLDER OF THIS REPRESENTATIVE'S OPTION, BY ITS ACCEPTANCE HEREOF, AGREES THAT IT WILL NOT SELL, TRANSFER OR ASSIGN THIS REPRESENTATIVE'S OPTION EXCEPT AS OTHERWISE PROVIDED HEREIN.

NATURAL GAS SERVICES GROUP, INC.

REPRESENTATIVE'S OPTION FOR THE PURCHASE OF COMMON STOCK

NO. UW-001 165,000 REPRESENTATIVE'S OPTION

THIS CERTIFIES that, for receipt in hand of $50 and other value received, NEIDIGER/TUCKER/BRUNER, INC. (the "Holder"), is entitled to subscribe for and purchase from NATURAL GAS SERVICES GROUP, INC., a Colorado corporation (the "Company"), upon the terms and conditions set forth herein, at any time, or from time to time, after _________, 2003, and before 5:00 p.m. Colorado time on __________, 2007 (the "Exercise Period"), 165,000 shares of Common Stock (the "Option Shares"), at a price of $_________ per Warrant Share (the "Exercise Price"), or 120% of the offering price of Common Stock to be sold by the Company in a public offering under Registration Statement Form SB-2, No. 333-_______ (the "Public Offering") at or prior to the date hereof.

The term the "Holder" as used herein shall include any transferee to whom this Representative's Option has been transferred in accordance with the terms of this Representative's Option. As used herein the term "this Representative's Option" shall mean and include this Representative's Option and any Representative's Option or Representative's Options hereafter issued as a consequence of the exercise or transfer of this Representative's

Option in whole or in part, and the term "Common Stock" shall mean and include the Company's Common Stock with ordinary voting power, which class at the date hereof is publicly traded.

1. This Representative's Option may not be sold, transferred, assigned, pledged or hypothecated until ________, 2003 (one year after the effective date of the registration statement on which it is initially registered) except that it may be transferred, in whole or in part, (i) to one or more officers or partners of the holder (or the officers or partners of any such partner); (ii) to a member of the underwriting syndicate and/or its officers or partners; (iii) by reason of reorganization of the company; or (iv) by operation of law. After _________, 2003, this Representative's Option may be sold, transferred, assigned or hypothecated in accordance with applicable law.

2. (a) This Representative's Option may be exercised during the Exercise Period as to the whole or any lesser number of Option Shares, by the surrender of this Representative's Option (with the election attached hereto duly executed) to the Company at its office at 2911 South County Road 1260, Midland, Texas 79706, or such other place as is designated in writing by the Company, together with a certified or bank cashier's check payable to the order of the Company in an amount equal to the Exercise Price multiplied by the number of Option Shares for which this Representative's Option is being exercised.

(b) Upon written request of the Holder, and in lieu of payment for the Option Shares by check in accordance with paragraph 2(a) hereof, the Holder may exercise the Representative's Option (or any portion thereof) for and receive the number of Option Shares equal to a fraction, the numerator of which equals (i) the amount by which the Current Market Price of the Common Stock for the ten (10) trading days preceding the date of exercise exceeds the Exercise Price per Share, multiplied by (ii) the number of Option Shares to be purchased; the denominator of which equals the Current Market Price.

(c) For the purposes of any computation under this Representative's Option, the "Current Market Price" at any date shall be the closing price of the Common Stock on

the business day next preceding the event requiring an adjustment hereunder. If the principal trading market for such securities is an exchange, the closing price shall be the reported last sale price on such exchange on such day provided if trading of such Common Stock is listed on any consolidated tape, the closing price shall be the reported last sale price set forth on such consolidated tape. If the principal trading market for such securities is the over-the-counter market, the closing price shall be the last reported sale price on such date as set forth by the American Stock Exchange, or, if the security is not quoted on such market, the average closing bid and asked prices as set forth in the National Quotation Bureau pink sheet or the Electronic Bulletin Board System for such day. Notwithstanding the foregoing, if there is no reported last sale price or average closing bid and asked prices, as the case may be, on a date prior to the event requiring an adjustment hereunder, then the current market price shall be determined as of the latest date prior to such day for which such last sale price or average closing bid and asked price is available.

3. Upon each exercise of this Representative's Option, the Holder shall be deemed to be the holder of record of the Option Shares issuable upon such exercise, notwithstanding that the transfer books of the Company shall then be closed or certificates representing such Option Shares shall not then have been actually delivered to the Holder. As soon as practicable after each such exercise of this Representative's Option, the Company shall issue and deliver to the Holder a certificate or certificates for the Option Shares issuable upon such exercise, registered in the name of the Holder or its designee. If this Representative's Option should be exercised in part only, the Company shall, upon surrender of this Representative's Option for cancellation, execute and deliver a new Representative's Option evidencing the right of the Holder to purchase the balance of the Option Shares (or portions thereof) subject to purchase hereunder.

4. The Representative's Option shall be registered in a Representative's Option Register as they are issued. The Company shall be entitled to treat the registered holder of any Representative's Option on the Representative's Option Register as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in such Representative's Option on the part of any other person. The Representative's Option shall be transferable only on the books of the Company upon delivery thereof duly endorsed by the

Holder or by his duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to transfer. In all cases of transfer by an attorney, executor, administrator, guardian or other legal representative, duly authenticated evidence of his or its authority shall be produced. Upon any registration of transfer, the Company shall deliver a new Representative's Option or Representative's Options to the person entitled thereto. The Representative's Option may be exchanged, at the option of the Holder thereof, for another Representative's Option, or other Representative's Option of different denominations, of like tenor and representing in the aggregate the right to purchase a like number of Option Shares (or portions thereof) upon surrender to the Company or its duly authorized agent. Notwithstanding the foregoing, the Company shall have no obligation to cause Representative's Option to be transferred on its books to any person if, in the opinion of counsel to the Company, such transfer does not comply with the provisions of the Securities Act of 1933, as amended (the "Act"), or applicable state blue sky laws and the rules and regulations thereunder.

5. The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of providing for the exercise of this Representative's Option, such number of shares of Common Stock as shall, from time to time, be sufficient therefor. The Company covenants that all Option Shares issuable upon exercise of this Representative's Option shall be validly issued, fully paid, nonassessable, and free of preemptive rights.

6. (a) If the Company shall at any time subdivide its outstanding Common Stock by recapitalization, reclassification or split-up thereof, the number of Option Shares subject to this Representative's Option immediately prior to such subdivision shall be proportionately increased, and if the Company shall at any time combine the outstanding Common Stock by recapitalization, reclassification or combination thereof, the number of Option Shares subject to this Representative's Option immediately prior to such combination shall be proportionately decreased. Any corresponding adjustment to the Exercise Price shall become effective at the close of business on the record date for such subdivision or combination.

(b) If the Company after the date hereof shall distribute to the holders of its Common Stock any securities or other assets (other than a distribution of Common Stock or a cash distribution made as a dividend payable out of earnings or out of any earned surplus legally available for dividends under the laws of the jurisdiction of incorporation of the Company), the Board of Directors shall be required to make such equitable adjustment in the Exercise Price in effect immediately prior to the record date of such distribution as may be necessary to preserve the rights substantially proportionate to those enjoyed hereunder by the Holder immediately prior to such distribution. Any such adjustment made in good faith by the Board of Directors shall be final and binding upon the Holder and shall become effective as of the record date for such distribution.

(c) No adjustment in the number of Option Shares subject to this Representative's Option shall be required unless such adjustment would require an increase or decrease in such number of Option Shares of at least 1% of the then adjusted number of Option Shares issuable upon exercise of this Representative's Option, provided, however, that any adjustments which by reason of the foregoing are not required at the time to be made shall be carried forward and taken into account and included in determining the amount of any subsequent adjustment; and provided further, however, that in case the Company shall at any time subdivide or combine the outstanding Common Stock or issue any additional Common Stock as a dividend, said percentage shall forthwith be proportionately increased in the case of a combination or decreased in the case of a subdivision or dividend of Common Stock so as to appropriately reflect the same. If the Company shall make a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or distribution

and legally abandon its plan to pay or deliver such dividend or distribution then no adjustment in the number of Option Shares subject to this Representative's Option shall be required by reason of the making of such record.

(d) Whenever the number of Option Shares purchasable upon the exercise of this Representative's Option is adjusted as provided herein, the Exercise Price shall be adjusted (to the nearest one tenth of a cent) by respectively multiplying such Exercise Price immediately prior to such adjustment by a fraction, the numerator of which shall be the number of Option Shares purchasable upon the exercise of this Representative's Option immediately prior to such adjustment, and the denominator of which shall be the number of Option Shares purchasable immediately thereafter.

(e) In case of any reclassification of the outstanding Common Stock (other than a change covered by (a) hereof or which solely affects the par value of such Common Stock) or in the case of any merger or consolidation of the Company with or into another corporation (other than a consolidation or merger in which the Company is the continuing corporation and which does not result in any reclassification or capital reorganization of the outstanding Common Stock), or in the case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety in connection with which the Company is dissolved, the Holder of this Representative's Option shall have the right thereafter (until the expiration of the right of exercise of this Representative's Option) to receive upon the exercise hereof, for the same aggregate Exercise Price payable hereunder immediately prior to such event, the kind and amount of shares of stock or other securities or property receivable upon such reclassification, capital reorganization, merger or consolidation, or

upon the dissolution following any sale or other transfer, by a holder of the number of Option Shares obtainable upon the exercise of this Representative's Option immediately prior to such event; and if any reclassification also results in a change in Common Stock covered by (a) above, then such adjustment shall be made pursuant to both this paragraph (e) and paragraph (a). The provisions of this paragraph (e) shall similarly apply to successive re-classifications, or capital reorganizations, mergers or consolidations, sales or other transfers.

If the Company after the date hereof shall issue or agree to issue Common Stock, Options or Convertible Securities, other than as described herein, and such issuance or agreement would in the opinion of the Board of Directors of the Company materially affect the rights of the Holders of the Representative's Option, the Exercise Price and the number of Option Shares purchasable upon exercise of the Representative's Option shall be adjusted in such matter, if any, and at such time as the Board of Directors of the Company, in good faith, may determine to be equitable in the circumstances. The minutes or unanimous consent approving such action shall set forth the Board of Director's determination as to whether an adjustment is warranted and the manner of such adjustment. In the absence of such determination, any Holder may request in writing that the Board of Directors make such determination. Any such determination made in good faith by the Board of Directors shall be final and binding upon the Holders. If the Board fails, however, to make such determination within sixty (60) days after such request, such failure shall be deemed a determination that an adjustment is required.

(i) Upon occurrence of each event requiring an adjustment of the Exercise Price and of the number of Option Shares purchasable upon exercise of this Representative's Option in accordance with, and as required by, the terms hereof, the Company shall forthwith employ a firm of certified public accountants (who may be the regular accountants for the Company) who shall compute the adjusted Exercise Price and the adjusted number of Option Shares purchasable at such adjusted Exercise Price by reason of such event in accordance herewith. The Company shall give to each Holder of the Representative's Option a copy of such

computation which shall be conclusive and shall be binding upon such Holders unless contested by Holders by written notice to the Company within thirty (30) days after receipt thereof.

(ii) In case the Company after the date hereof shall propose (A) to pay any dividend payable in stock to the holders of its Common Stock or to make any other distribution (other than cash dividends) to the holders of its Common Stock or to grant rights to subscribe to or purchase any additional shares of any class or any other rights or options, (B) to effect any reclassification involving merely the subdivision or combination of outstanding Common Stock, or (C) any capital reorganization or any consolidation or merger, or any sale, transfer or other disposition of its property, assets and business substantially as an entirety, or the liquidation, dissolution or winding up of the Company, then in each such case, the Company shall obtain the computation described above and if an adjustment to the Exercise Price is required, the Company shall notify the Holders of the Representative's Option of such proposed action, which shall specify the record date for any such action or if no record date is established with respect thereto, the date on which such action shall occur or commence, or the date of participation therein by the holders of Common Stock if any such date is to be fixed, and shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action on the Exercise Price and the number, or kind, or class of shares or other securities or property obtainable upon exercise of this Representative's Option after giving effect to any adjustment which will be required as a result of such action. Such notice shall be given at least twenty (20) days prior to the record date for determining holders of the Common Stock for purposes of any such action, and in the case of any action for which a record date is not established then such notice shall be mailed at least twenty (20) days prior to the taking of such proposed action.

(iii) Failure to file any certificate or notice or to give any notice, or any defect in any certificate or notice, shall not effect the legality or validity of the adjustment in the Exercise Price or in the number, or kind, or class of shares or

other securities or property obtainable upon exercise of the Representative's Option or of any transaction giving rise thereto.

(f) The Company shall not be required to issue fractional Option Shares upon any exercise of the Representative's Option. As to any final fraction of a Share which the Holder of a Representative's Option would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the Current Market Price of a share of such stock on the business day preceding the day of exercise. The Holder of a Representative's Option, by his acceptance of a Representative's Option, expressly waives any right to receive any fractional Option Shares.

(g) Regardless of any adjustments pursuant to this section in the Exercise Price or in the number, or kind, or class of shares or other securities or other property obtainable upon exercise of a Representative's Option, a Representative's Option may continue to express the Exercise Price and the number of Option Shares obtainable upon exercise at the same price and number of Option Shares as are stated herein.

(h) The number of Option Shares, the Exercise Price and all other terms and provisions of the Company's agreement with the Holder of this Representative's Option shall be determined exclusively pursuant to the provisions hereof.

(i) The above provisions of this section 6 shall similarly apply to successive transactions which require adjustments.

(j) Notwithstanding any other language to the contrary herein, (i) the anti-dilution terms of this Representative's Option will not be enforced so as to provide the Holder the right to receive, or for the accrual of, cash dividends prior to the exercise of

this Representative's Option, and (ii) the anti-dilution terms of this Representative's Option will not be enforced in such a manner as to provide the Holder with disproportionate rights, privileges and economic benefits not provided to purchasers of the Common Stock in the Public Offering.

7. The issuance of any Option Shares or other securities upon the exercise of this Representative's Option and the delivery of certificates or other instruments representing such securities, or other securities, shall be made without charge to the Holder for any tax or other charge in respect of such issuance. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of any certificate in a name other than that of the Holder and the Company shall not be required to issue or deliver any such certificate unless and until the person or persons requesting the issue thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

8. (a) If, at any time after _____________, 2003 (one year after the Effective Date of the Registration Statement), and ending ____________, 2008 (six years after the Effective Date of the Registration Statement), the Company shall file a registration statement (other than on Form S-4, Form S-8, or any successor form) with the Securities and Exchange Commission (the "Commission") while Option Shares are available for purchase upon exercise of this Representative's Option or while any Option Shares (collectively, the "Representative's Option and the underlying Option Shares, the "Representative's Securities") are outstanding, the Company shall, on one occasion only, give the Holder and all the then holders of such Representative's Securities at least 30 days prior written notice of the filing of such registration statement. If requested by the Holder or by any such holder in writing within 20 days after receipt of any such notice, the Company shall, at the Company's sole expense (other than the fees and disbursements of counsel for the Holder or such holder and the underwriting discounts and non-accountable expenses, if any, payable in respect of the securities sold by the Holder or any such holder), register or qualify the Option Shares of the Holder or any such holders who shall have made such request concurrently with the registration of such other

securities, all to the extent requisite to permit the public offering and sale of the Option Shares requested to be registered, and will use its best efforts through its officers, directors, auditors and counsel to cause such registration statement to become effective as promptly as practicable. Notwithstanding the foregoing, if the managing underwriter of any such offering shall advise the Company in writing that, in its opinion, the distribution of all or a portion of the Option Shares requested to be included in the registration concurrently with the securities being registered by the Company would materially adversely affect the distribution of such securities by the Company for its own account, then the Holder or any such holder who shall have requested registration of his or its Option Shares shall delay the offering and sale of such Option Shares (or the portions thereof so designated by such managing underwriter) for such period, not to exceed 90 days, as the managing underwriter shall request, provided that no such delay shall be required as to any Option Shares if any securities of the Company are included in such registration statement for the account of any person other than the Company and the Holder unless the securities included in such registration statement for such other person shall have been reduced pro rata to the reduction of the Option Shares which were requested to be included in such registration.

(b) If at any time after __________, 2003 (one year after the Effective Date of the Registration Statement), and before ___________, 2007 (five years after the Effective Date of the Registration Statement), the Company shall receive a written request from holders of Representative's Securities who, in the aggregate, own (or upon exercise of all Option Shares will own) a majority of the total number of Option Shares, the Company shall, as promptly as practicable, prepare and file with the Commission a registration statement sufficient to permit the public offering and sale of the Option Shares, and will use its best efforts through its officers, directors, auditors and counsel to cause such registration statement to become effective as promptly as practicable; provided, however, that the Company shall only be obligated to file and obtain effectiveness of one such registration statement for which all expenses incurred in connection with such registration (other than the fees and disbursements of counsel for the Holder or such holders and underwriting discounts and nonaccountable expenses, if any, payable in

respect of the Option Shares sold by the Holder or any such holder) shall be borne by the Company.

(c) In the event of a registration pursuant to the provisions of this paragraph 8, the Company shall use its best efforts to cause the Option Shares so requested to be registered or qualified for sale under the securities or blue sky laws of such jurisdictions as the Holder or such holders may reasonably request; provided, however, that the Company shall not be required to qualify to do business in any state by reason of this paragraph 8(c) in which it is not otherwise required to qualify to do business and provided further, that the Company has no obligation to qualify the Option Shares where such qualification would cause any unreasonable delay or expenditure by the Company.

(d) The Company shall keep effective any registration or qualification contemplated by this paragraph 8 and shall from time to time amend or supplement each applicable registration statement, preliminary prospectus, final prospectus, application, document and communication for such period of time as shall be required to permit the Holder or such holders to complete the offer and sale of the Option Shares covered thereby. The Company shall in no event be required to keep any such registration or qualification in effect for a period in excess of nine months from the date on which the Holder and such holders are first free to sell such Option Shares; provided, however, that if the Company is required to keep any such registration or qualification in effect with respect to securities other than the Option Shares beyond such period, the Company shall keep such registration or qualification in effect as it relates to the Option Shares for so long as such registration or qualification remains or is required to remain in effect in respect of such other securities.

(e) In the event of a registration pursuant to the provisions of this paragraph 8, the Company shall furnish to the Holder and to each such holder such reasonable number of copies of the registration statement and of each amendment and supplement thereto (in each case, including all exhibits), such reasonable number of copies of each prospectus contained in such registration statement and each supplement or amendment thereto (including each preliminary prospectus), all of which shall conform to the requirements

of the Act and the rules and regulations thereunder, and such other documents as the Holder or such holders may reasonably request in order to facilitate the disposition of the Option Shares included in such registration.

(f) In the event of a registration pursuant to the provisions of this paragraph 8, the Company shall furnish the Holder and each holder of any Option Shares so registered with an opinion of its counsel to the effect that (i) the registration statement has become effective under the Act and no order suspending the effectiveness of the registration statement, preventing or suspending the use of the registration statement, any preliminary prospectus, any final prospectus, or any amendment or supplement thereto has been issued, nor to such counsel's actual knowledge has the Securities and Exchange Commission or any securities or blue sky authority of any jurisdiction instituted or threatened to institute any proceedings with respect to such an order and (ii) the registration statement and each prospectus forming a part thereof (including each preliminary prospectus), and any amendment or supplement thereto, complies as to form with the Act and the rules and regulations thereunder. Such counsel shall also provide a Blue Sky Memorandum setting forth the jurisdictions in which the Option Shares have been registered or qualified for sale pursuant to the provisions of paragraph 8(c).

(g) The Company agrees that until all the Option Shares have been sold under a registration statement or pursuant to Rule 144 under the Act, or until the Option Shares may be sold under Rule 144 (k), it shall keep current in filing all reports, statements and other materials required to be filed with the Commission to permit holders of the Option Shares to sell such securities under Rule 144.

(h) The Holder and any holders who propose to register their Option Shares under the Act, shall execute and deliver to the Company a selling stockholder questionnaire on a form to be provided by the Company.

(i) The Company shall not be required by the terms hereof to file a Registration Statement if, in the opinion of counsel to the holders of the Option Shares and counsel for the Company (or, should they not agree, in the opinion of another counsel experienced in securities law matters acceptable to counsel for the holders of Option Shares and the

Company), the proposed public offering or other transfer as to which such Registration Statement is requested to be filed is exempt from applicable federal and state securities laws, rules, regulations and would result in unaffiliated purchasers or transferees obtaining securities that are not "restricted securities" as that term is defined in Rule 144 under the Act.

(a) Subject to the conditions set forth below, the Company agrees to indemnify and hold harmless the Holder, any holder of any of the Representative's Securities, their officers, directors, partners, employees, agents and counsel, and each person, if any, who controls any such person within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), from and against any and all loss, liability, charge, claim, damage and expense whatsoever (which shall include, for all purposes of this Section 9, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), as and when incurred, arising out of, based upon, or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained (A) in any registration statement, preliminary prospectus or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or (B) in any application or other document or communication (in this Section 9 collectively called an "application") executed by or on behalf of the Company or based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to register or qualify any of the Option Shares under the securities or blue sky laws thereof or filed with the Commission or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, unless such statement or omission was made in reliance upon and in conformity with written information furnished to the Company with respect to the Holder or any holder of any of the Representative's Securities by or on behalf of such person expressly for inclusion in any registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, or in any application, as the case may be, or (ii) any breach of any representation, warranty, covenant or agreement of the

Company contained in this Representative's Option. The foregoing agreement to indemnify shall be in addition to any liability the Company may otherwise have, including liabilities arising under this Representative's Option. If any action is brought against the Holder or any holder of any of the Representative's Securities or any of its officers, directors, partners, employees, agents or counsel, or any controlling persons of such person (an "indemnified party") in respect of which indemnity may be sought against the Company pursuant to the foregoing paragraph, such indemnified party or parties shall promptly notify the Company in writing of the institution of such action (but the failure so to notify shall not relieve the Company from any liability it may otherwise have to Holder or any holder of any of the Representative's Securities) and the Company shall promptly assume the defense of such action, including the employment of counsel (reasonably satisfactory to such indemnified party or parties) and payment of expenses. Such indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have promptly employed counsel reasonably satisfactory to such indemnified party or parties to have charge of the defense of such action or such indemnified party or parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other indemnified parties which are different from or additional to those available to the Company, in any of which events such fees and expenses shall be borne by the Company and the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties. Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent.

(b) The Holder and each holder agrees to indemnify and hold harmless the Company, each director of the Company, each officer of the Company who shall have signed any registration statement covering the Option Shares held by the Holder and each holder and each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Holder and each holder in paragraph 9(a),

but only with respect to statements or omissions, if any, made in any registration statement, preliminary prospectus, or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or in any application, in reliance upon and in conformity with written information furnished to the Company with respect to the Holder and each holder by or on behalf of the Holder and each holder expressly for inclusion in any such registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, or in any application, as the case may be. If any action shall be brought against the Company or any other person so indemnified based on any such registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, or in any application, and in respect of which indemnity may be sought against the Holder and each holder pursuant to this paragraph 9(b), the Holder and each holder shall have the rights and duties given to the Company, and the Company and each other person so indemnified shall have the rights and duties given to the indemnified parties, by the provisions of paragraph 9(a).

(c) To provide for just and equitable contribution, if (i) an indemnified party makes a claim for indemnification pursuant to paragraph 9(a) or 9(b) (subject to the limitations thereof) but it is found in a final judicial determination, not subject to further appeal, that such indemnification may not be enforced in such case, even though this Agreement expressly provides for indemnification in such case, or (ii) any indemnified or indemnifying party seeks contribution under the Act, the Exchange Act or otherwise because the indemnification provided for in this Section 9 is for any reason held to be unenforceable by the Company and the Holder and any holder, then the Company (including for this purpose any contribution made by or on behalf of any director of the Company, any officer of the Company who signed any such registration statement and any controlling person of the Company), as one entity, and the Holder and any holder of any of the Option Shares included in such registration in the aggregate (including for this purpose any contribution by or on behalf of the Holder or any holder), as a second entity, shall contribute to the losses, liabilities, claims, damages and expenses whatsoever to which any of them may be subject, on the basis of relevant equitable considerations such as the relative fault of the Company and the Holder or any such holder in connection with the facts which resulted in such losses, liabilities, claims, damages and expenses. The

relative fault, in the case of an untrue statement, alleged untrue statement, omission or alleged omission, shall be determined by, among other things, whether such statement, alleged statement, omission or alleged omission relates to information supplied by the Company, by the Holder or by any holder of Option Shares included in such registration, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, alleged statement, omission or alleged omission. The Company and the Holder agree that it would be unjust and inequitable if the respective obligations of the Company and the Holder for contribution were determined by pro rata or per capita allocation of the aggregate losses, liabilities, claims, damages and expenses (even if the Holder and the other indemnified parties were treated as one entity for such purpose) or by any other method of allocation that does not reflect the equitable considerations referred to in this paragraph 9(c). No person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this paragraph 9(c), each person, if any, who controls the Holder or any holder of any of the Representative's Securities within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partner, employee, agent and counsel of each such person, shall have the same rights to contribution as such person and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, each officer of the Company who shall have signed any such registration statement, and each director of the Company shall have the same rights to contribution as the Company, subject in each case to the provisions of this paragraph 9(c). Anything in this paragraph 9(c) to the contrary notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This paragraph 9(c) is intended to supersede any right to contribution under the Act, the Exchange Act or otherwise.

10. Unless the Option Shares have been registered or an exemption from such registration is available, the Option Shares issued upon exercise of this Representative's Option shall be subject to a stop transfer order and the certificate or certificates evidencing any such Option Shares shall bear the following legend or a legend substantially similar thereto:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, NOR HAVE THEY BEEN REGISTERED UNDER THE SECURITIES ("BLUE SKY") LAWS OF ANY STATE. THESE SECURITIES MAY NOT BE SOLD, TRANSFERRED, PLEDGED, OR HYPOTHECATED UNLESS THEY HAVE FIRST BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND UNDER THE APPLICABLE STATE SECURITIES ("BLUE SKY") LAWS OR UNLESS THE AVAILABILITY OF AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND LAWS IS ESTABLISHED TO THE SATISFACTION OF THE COMPANY, WHICH MAY NECESSITATE A WRITTEN OPINION OF SELLER'S COUNSEL SATISFACTORY TO COMPANY COUNSEL.

11. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of any Representative's Option (and upon surrender of any Representative's Option if mutilated), and upon reimbursement of the Company's reasonable incidental expenses, the Company shall execute and deliver to the Holder thereof a new Representative's Option of like date, tenor and denomination.

12. The Holder of any Representative's Option shall not have, solely on account of such status, any rights of a stockholder of the Company, either at law or in equity, or to any notice of meetings of stockholders or of any other proceedings of the Company, except as provided in this Representative's Option.

13. This Representative's Option shall be construed in accordance with the laws of the State of Colorado, without giving effect to conflict of laws.

Dated: ______________________, 2002

NATURAL GAS SERVICES GROUP, INC.

By: _________________________________
Wayne L. Vinson, President

[SEAL]

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the attached Representative's Option.)

FOR VALUE RECEIVED, ___________________________________ hereby sells, assigns and transfers unto ________________________ Representative's Option to purchase __________ shares of Common Stock of Natural Gas Services Group, Inc. (the "Company"), together with all right, title and interest therein, and does hereby irrevocably constitute and appoint ____________________________ attorney to transfer such Representative's Option on the books of the Company, with full power of substitution.

Dated: ______________________

Signature: ____________________________________

Signature Guaranteed:

NOTICE

The signature on the foregoing Assignment must correspond to the name as written upon the face of this Representative's Option in every particular, without alteration or enlargement or any change whatsoever. Signature(s) must be guaranteed by an eligible guarantor institution which is a participant in a Securities Transfer Association recognized program.

ELECTION TO EXERCISE

(To be executed by the holder if such holder desires to exercise the attached Representative's Option)

The undersigned hereby exercises his or its rights to subscribe for __________ shares of Common Stock covered by the within Representative's Option (each as defined in the within Representative's Option) and tenders payment herewith in the amount of $__________ in accordance with the terms thereof, and requests that certificates for such Common Stock be issued in the name of, and delivered to:

____

____

____
(Print Name, Address and Social Security or Tax Identification Number)

and, if such number of shares of Common Stock (or portions thereof) shall not be all the Common Stock covered by the within Representative's Option, that a new Representative's Option for the balance of the Representative's Option covered by the within Representative's Option be registered in the name of, and delivered to, the undersigned at the address stated below.

Name: ____
(Print)

Address: ____

____
(Signature)

NOTICE

The signature on the foregoing Assignment must correspond to the name as written upon the face of this Representative's Option in every particular, without alteration or enlargement or any change whatsoever. Signature(s) must be guaranteed by an eligible guarantor institution which is a participant in a Securities Transfer Association recognized program.

Exhibit 4.05

THE REPRESENTATIVE'S OPTION REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF (THE "SECURITIES") HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, PURSUANT TO A REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND WITH THE SECURITIES ADMINISTRATORS OF CERTAIN STATES UNDER THE SECURITIES ("BLUE SKY") LAWS OF SUCH STATES. HOWEVER, NEITHER THE REPRESENTATIVE'S OPTION NOR SUCH SECURITIES MAY BE SOLD, TRANSFERRED, PLEDGED, OR HYPOTHECATED EXCEPT PURSUANT TO (I) A POST-EFFECTIVE AMENDMENT TO SUCH REGISTRATION STATEMENT, (II) A SEPARATE REGISTRATION STATEMENT UNDER SUCH ACT, OR (III) AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND UNDER THE APPLICABLE BLUE SKY LAWS.

THIS REPRESENTATIVE'S OPTION MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED EXCEPT AS OTHERWISE PROVIDED HEREIN AND THE HOLDER OF THIS REPRESENTATIVE'S OPTION, BY ITS ACCEPTANCE HEREOF, AGREES THAT IT WILL NOT SELL, TRANSFER OR ASSIGN THIS REPRESENTATIVE'S OPTION EXCEPT AS OTHERWISE PROVIDED HEREIN.

NATURAL GAS SERVICES GROUP, INC.

REPRESENTATIVE'S OPTION FOR THE PURCHASE OF WARRANTS

NO. UWW-001 165,000 REPRESENTATIVE'S OPTIONS

THIS CERTIFIES that, for receipt in hand of $50 and other value received (the "Purchase Price"), NEIDIGER/TUCKER/BRUNER, INC. (the "Holder"), is entitled to subscribe for and purchase from NATURAL GAS SERVICES GROUP, INC., a Colorado corporation (the "Company"), upon the terms and conditions set forth herein, at any time, or from time to time, after _______________, 2003 (12 months from the Effective Date, as defined below) and before 5:00 p.m. Colorado time on _______________, 2007 (the "Exercise Period"), 165,000 Warrants (a "Warrant" or the "Warrants") of the Company at an exercise price of $______ per Representative's Option or 120% of the offering price of Warrants sold by the Company in the Public Offering (hereinafter defined). Subject to the higher exercise price and the longer exercise period set forth below each Warrant shall be identical to the Warrants sold in the public offering to be underwritten by the Holder (the "Public Offering"). Each Warrant shall be exercisable to purchase one share of Common Stock (a "Warrant Share") at a price of $__________ (120% of the exercise price of the Warrants sold in the Public Offering; the "Exercise Price") until _______________, 2008, which is six years from the date on which the Company's Registration Statement on Form SB-2, Registration No. 333-__________ (the

"Registration Statement") was declared effective by the Securities and Exchange Commission (the "Effective Date").

The term the "Holder" as used herein shall include any transferee to whom this Representative's Option has been transferred in accordance with the terms of this Representative's Option. As used herein the term "this Representative's Option" shall mean and include this Representative's Option and any Representative's Option or Representative's Options hereafter issued as a consequence of the exercise or transfer of this Representative's Option in whole or in part, but shall exclude the Warrants, and the term "Common Stock" shall mean and include the Company's Common Stock with ordinary voting power, which class at the date hereof is publicly traded.

1. This Representative's Option may not be sold, transferred, assigned, pledged or hypothecated until ______________, 2003 (12 months from the Effective Date of the Registration Statement) except that it may be transferred, in whole or in part, (i) to one or more officers or partners of the Holder (or the officers or partners of any such partner); (ii) to a member of the underwriting syndicate and/or its officers or partners; or (iii) by operation of law. After _________, 2003, this Representative's Option may be sold, transferred, assigned or hypothecated in accordance with applicable law.

2. (a) This Representative's Option may be exercised during the Exercise Period as to the whole or any lesser number of Warrants, by the surrender of this Representative's Option (with the election attached hereto duly executed) to the Company at its office at 2911 South County Road 1260, Midland, Texas 79706, or such other place as is designated in writing by the Company, together with a certified or bank cashier's check payable to the order of the Company in an amount equal to the Purchase Price.

(b) Following exercise of this Representative's Option, and at anytime thereafter through and until expiration of the Warrants, the Holder may exercise the Warrants underlying this Representative's Option by tendering a notice of exercise, together with a certified or bank cashier's check payable to the order of the Company, in

an amount equal to the Exercise Price multiplied by the number of Warrant Shares as to which such exercise relates.

(c) Upon written request of the Holder, and in lieu of payment of the Exercise Price of the Warrants by check in accordance with paragraph 2(b) hereof, the Holder may exercise the Warrants (or any portion thereof) for and receive the number of Warrants equal to a fraction, the numerator of which equals (i) the amount by which the Current Market Price of the Common Stock for the ten (10) trading days preceding the date of exercise exceeds the Exercise Price per Warrant, multiplied by (ii) the number of Warrant Shares to be purchased; the denominator of which equals the Current Market Price.

(d) For the purposes of any computation under this Representative's Option, the "Current Market Price" at any date shall be the closing price of the Common Stock on the business day next preceding the event requiring an adjustment hereunder. If the principal trading market for such securities is an exchange, the closing price shall be the reported last sale price on such exchange on such day provided if trading of such Common Stock is listed on any consolidated tape, the closing price shall be the reported last sale price set forth on such consolidated tape. If the principal trading market for such securities is the over-the-counter market, the closing price shall be the last reported sale price on such date as set forth by the American Stock Exchange, or, if the security is not quoted on such market, the average closing bid and asked prices as set forth in the National Quotation Bureau pink sheet or the Electronic Bulletin Board System for such day. Notwithstanding the foregoing, if there is no reported last sale price or average closing bid and asked prices, as the case may be, on a date prior to the event requiring an adjustment hereunder, then the Current Market Price shall be determined as of the latest date prior to such day for which such last sale price or average closing bid and asked price is available.

3. Upon each exercise of this Representative's Option, the Holder shall be deemed to be the holder of record of the Warrants issuable upon such exercise, notwithstanding that the transfer books of the Company shall then be closed or certificates representing such Warrants shall not then have been actually delivered to the Holder. As soon as practicable after each such

exercise of this Representative's Option, the Company shall issue and deliver to the Holder a certificate or certificates for the Warrants issuable upon such exercise, registered in the name of the Holder or its designee. If this Representative's Option should be exercised in part only, the Company shall, upon surrender of this Representative's Option for cancellation, execute and deliver a new Representative's Option evidencing the right of the Holder to purchase the balance of the Warrants (or portions thereof) subject to purchase hereunder.

4. Any warrants, other than the Warrants, issued upon the transfer or exercise in part of this Representative's Option (together with this Representative's Option, the "Representative's Options") shall be numbered and shall be registered in a Representative's Option Register as they are issued. The Company shall be entitled to treat the registered holder of any Representative's Option on the Representative's Option Register as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in such Representative's Option on the part of any other person. The Representative's Options shall be transferable only on the books of the Company upon delivery thereof duly endorsed by the Holder or by his duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to transfer. In all cases of transfer by an attorney, executor, administrator, guardian or other legal representative, duly authenticated evidence of his or its authority shall be produced. Upon any registration of transfer, the Company shall deliver a new Representative's Option or Representative's Options to the person entitled thereto. The Representative's Options may be exchanged, at the option of the Holder thereof, for another Representative's Option, or other Representative's Options of different denominations, of like tenor and representing in the aggregate the right to purchase a like number of Warrants (or portions thereof) upon surrender to the Company or its duly authorized agent. Notwithstanding the foregoing, the Company shall have no obligation to cause Representative's Options to be transferred on its books to any person if, in the opinion of counsel to the Company, such transfer does not comply with the provisions of the Securities Act of 1933, as amended (the "Act"), or applicable state blue sky laws and the rules and regulations thereunder.

5. The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of providing for the exercise of this Representative's

Option and the Warrants purchasable upon exercise of this Representative's Option, such number of shares of Common Stock as shall, from time to time, be sufficient therefor. The Company covenants that all shares of Common Stock issuable upon exercise of Warrants underlying this Representative's Option shall be validly issued, fully paid, nonassessable, and free of preemptive rights.

6. The rights and privileges of the Warrants issuable on exercise of this Representative's Option shall be as provided in the warrant certificate (the "Warrant Certificate") to be delivered to the Holder on exercise of this Representative's Option. All anti-dilution and other rights shall be as provided for in the Warrant Certificate and as set forth in the warrant agreement by and between the Company and the Warrant Agent for the Company (the "Warrant Agreement"). The provisions of the Warrant Agreement relating to anti-dilution rights and any other rights and privileges granted to holders of publicly traded Warrants are incorporated by reference herein as if more fully set forth herein. Notwithstanding any other language to the contrary herein or in the Warrant Agreement by and between the Company and the Warrant Agent, in the event, prior to the exercise of this Warrant, Holders of publicly-traded Warrants shall be entitled to the benefit of any anti-dilution provisions of the Warrant Agreement or the Warrant Certificate then, in such event, the Warrants issuable upon exercise of this Representative's Option shall be adjusted in accordance with the provisions of the anti-dilution provisions of the Warrant Certificate and the Warrant Agreement in a manner identical to the adjustments made pursuant to the anti-dilution provisions and other rights and privileges applicable to publicly-traded warrants. Any such adjustment may be made at or immediately following the date of exercise hereof. Notwithstanding any other language to the contrary herein, (i) the anti-dilution terms of this Representative's Option will not be enforced so as to provide the Holder the right to receive, or for the accrual of, cash dividends prior to the exercise of this Representative's Option, and (ii) the anti-dilution terms of this Representative's Option will not be enforced in such a manner as to provide the Holder with disproportionate rights, privileges and economic benefits not provided to purchasers of Warrants in the Public Offering.

7. The issuance of any Warrants or other securities upon the exercise of this Representative's Option or any Warrant Shares upon the exercise of the Warrants, and the delivery of certificates or other instruments representing such securities, or other securities, shall be made without charge to the Holder for any tax or other charge in respect of such issuance.

The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of any certificate in a name other than that of the Holder and the Company shall not be required to issue or deliver any such certificate unless and until the person or persons requesting the issue thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

8. (a) If, at any time after ______________, 2003 (one year after the Effective Date of the Registration Statement), and ending _______________, 2008 (six years after the Effective Date of the Registration Statement), the Company shall file a registration statement (other than on Form S-4, Form S-8, or any successor form) with the Securities and Exchange Commission (the "Commission") while Warrants are available for purchase upon exercise of this Representative's Option or while any Warrants or Warrant Shares (collectively, the "Representative's Securities") are outstanding, the Company shall give the Holder and all the then holders of such Representative's Options and Representative's Securities at least 30 days prior written notice of the filing of such registration statement. If requested by the Holder or by any such holder in writing within 20 days after receipt of any such notice, the Company shall, at the Company's sole expense (other than the fees and disbursements of counsel for the Holder or such holder and the underwriting discounts and unaccountable expenses, if any, payable in respect of the securities sold by the Holder or any such holder), register or qualify the Representative's Securities of the Holder or any such holders who shall have made such request concurrently with the registration of such other securities, all to the extent requisite to permit the public offering and sale of the Representative's Securities, and will use its best efforts through its officers, directors, auditors and counsel to cause such registration statement to become effective as promptly as practicable. Notwithstanding the foregoing, if the managing underwriter of any such offering shall advise the Company in writing that, in its opinion, the distribution of all or a portion of the Representative's Securities requested to be included in the registration concurrently with the securities being registered by the Company would materially adversely affect the distribution of such securities by the Company for its own account, then the Holder or any such holder who shall have requested registration of his or its Representative's Securities shall delay

the offering and sale of such Representative's Securities (or the portions thereof so designated by such managing underwriter) for such period, not to exceed 90 days, as the managing underwriter shall request, provided that no such delay shall be required as to any Representative's Securities if any securities of the Company are included in such registration statement for the account of any person other than the Company and the Holder unless the securities included in such registration statement for such other person shall have been reduced pro rata to the reduction of the Representative's Securities which were requested to be included in such registration.

(b) If at any time after _______________, 2003 (one year after the Effective Date of the Registration Statement), and before _______________, 2007 (five years after the Effective Date of the Registration Statement), the Company shall receive a written request from holders of Representative's Securities who, in the aggregate, own (or upon exercise of all Representative's Options will own) a majority of the total number of Representative's Securities, the Company shall, as promptly as practicable, prepare and file with the Commission a registration statement sufficient to permit the public offering and sale of the Representative's Securities, and will use its best efforts through its officers, directors, auditors and counsel to cause such registration statement to become effective as promptly as practicable; provided, however, that the Company shall only be obligated to file and obtain effectiveness of one such registration statement for which all expenses incurred in connection with such registration (other than the fees and disbursements of counsel for the Holder or such holders and underwriting discounts and unaccountable expenses, if any, payable in respect of the Representative's Securities sold by the Holder or any such holder) shall be borne by the Company.

(c) In the event of a registration pursuant to the provisions of this paragraph 8, the Company shall use its best efforts to cause the Representative's Securities so registered to be registered or qualified for sale under the securities or blue sky laws of such jurisdictions as the Holder or such holders may reasonably request; provided, however, that the Company shall not be required to qualify to do business in any state by reason of this paragraph 8(c) in which it is not otherwise required to qualify to do business and provided further, that the Company has no obligation to qualify the

Representative's Securities where such qualification would cause any unreasonable delay or expenditure by the Company.

(d) The Company shall keep effective any registration or qualification contemplated by this paragraph 8 and shall from time to time amend or supplement each applicable registration statement, preliminary prospectus, final prospectus, application, document and communication for such period of time as shall be required to permit the Holder or such holders to complete the offer and sale of the Representative's Securities covered thereby. The Company shall in no event be required to keep any such registration or qualification in effect for a period in excess of nine months from the date on which the Holder and such holders are first free to sell such Representative's Securities; provided, however, that if the Company is required to keep any such registration or qualification in effect with respect to securities other than the Representative's Securities beyond such period, the Company shall keep such registration or qualification in effect as it relates to the Representative's Securities for so long as such registration or qualification remains or is required to remain in effect in respect of such other securities.

(e) In the event of a registration pursuant to the provisions of this paragraph 8, the Company shall furnish to the Holder and to each such holder such reasonable number of copies of the registration statement and of each amendment and supplement thereto (in each case, including all exhibits), such reasonable number of copies of each prospectus contained in such registration statement and each supplement or amendment thereto (including each preliminary prospectus), all of which shall conform to the requirements of the Act and the rules and regulations thereunder, and such other documents as the Holder or such holders may reasonably request in order to facilitate the disposition of the Representative's Securities included in such registration.

(f) In the event of a registration pursuant to the provisions of this paragraph 8, the Company shall furnish the Holder and each holder of any Representative's Securities so registered with an opinion of its counsel to the effect that the registration statement has become effective under the Act and no order suspending the effectiveness of the

registration statement, preventing or suspending the use of the registration statement, any preliminary prospectus, any final prospectus, or any amendment or supplement thereto has been issued, nor to such counsel's actual knowledge has the Securities and Exchange Commission or any securities or blue sky authority of any jurisdiction instituted or threatened to institute any proceedings with respect to such an order and (ii) the registration statement and each prospectus forming a part thereof (including each preliminary prospectus), and any amendment or supplement thereto, complies as to form with the Act and the rules and regulations thereunder. Such counsel shall also provide a Blue Sky Memorandum setting forth the jurisdictions in which the Representative's Securities have been registered or qualified for sale pursuant to the provisions of paragraph 8(c).

(g) The Company agrees that until all the Representative's Securities have been sold under a registration statement or pursuant to Rule 144 under the Act or until the Representative's Securities may be sold under Rule 144(k), it shall keep current in filing all reports, statements and other materials required to be filed with the Commission to permit holders of the Representative's Securities to sell such securities under Rule 144.

(h) The Holder and any holders who propose to register their Representative's Securities under the Act shall execute and deliver to the Company a selling stockholder questionnaire on a form to be provided by the Company.

(i) The Company shall not be required by the terms hereof to file a Registration Statement if, in the opinion of counsel to the holders of the Representative's Securities and counsel for the Company (or, should they not agree, in the opinion of another counsel experienced in securities law matters acceptable to counsel for the holders of Representative's Securities and the Company), the proposed public offering or other transfer as to which such Registration Statement is requested to be filed is exempt from applicable federal and state securities laws, rules, regulations and would result in unaffiliated purchasers or transferees obtaining securities that are not "restricted securities" as that term is defined in Rule 144 under the Act.

9. (a) Subject to the conditions set forth below, the Company agrees to indemnify and hold harmless the Holder, any holder of any of the Representative's Securities, their officers, directors, partners, employees, agents and counsel, and each person, if any, who controls any such person within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), from and against any and all loss, liability, charge, claim, damage and expense whatsoever (which shall include, for all purposes of this Section 9, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), as and when incurred, arising out of, based upon, or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained (A) in any registration statement, preliminary prospectus or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or (B) in any application or other document or communication (in this Section 9 collectively called an "application") executed by or on behalf of the Company or based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to register or qualify any of the Representative's Securities under the securities or blue sky laws thereof or filed with the Commission or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, unless such statement or omission was made in reliance upon and in conformity with written information furnished to the Company with respect to the Holder or any holder of any of the Representative's Securities by or on behalf of such person expressly for inclusion in any registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, or in any application, as the case may be, or (ii) any breach of any representation, warranty, covenant or agreement of the Company contained in this Representative's Option. The foregoing agreement to indemnify shall be in addition to any liability the Company may otherwise have, including liabilities arising under this Representative's Option.

If any action is brought against the Holder or any holder of any of the Representative's Securities or any of its officers, directors, partners, employees, agents or

counsel, or any controlling persons of such person (an "indemnified party") in respect of which indemnity may be sought against the Company pursuant to the foregoing paragraph, such indemnified party or parties shall promptly notify the Company in writing of the institution of such action (but the failure so to notify shall not relieve the Company from any liability it may otherwise have to Holder or any holder of any of the Representative's Securities) and the Company shall promptly assume the defense of such action, including the employment of counsel (reasonably satisfactory to such indemnified party or parties) and payment of expenses. Such indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have promptly employed counsel reasonably satisfactory to such indemnified party or parties to have charge of the defense of such action or such indemnified party or parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other indemnified parties which are different from or additional to those available to the Company, in any of which events such fees and expenses shall be borne by the Company and the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties. Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent.

(b) The Holder and each holder agrees to indemnify and hold harmless the Company, each director of the Company, each officer of the Company who shall have signed any registration statement covering the Representative's Securities held by the Holder and each holder and each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Holder and each holder in paragraph 9(a), but only with respect to statements or omissions, if any, made in any registration statement, preliminary prospectus, or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or in any application, in reliance upon and in conformity with written information furnished to the

Company with respect to the Holder and each holder by or on behalf of the Holder and each holder expressly for inclusion in any such registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, or in any application, as the case may be. If any action shall be brought against the Company or any other person so indemnified based on any such registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, or in any application, and in respect of which indemnity may be sought against the Holder and each holder pursuant to this paragraph 9(b), the Holder and each holder shall have the rights and duties given to the Company, and the Company and each other person so indemnified shall have the rights and duties given to the indemnified parties, by the provisions of paragraph 9(a).

(c) To provide for just and equitable contribution, if (i) an indemnified party makes a claim for indemnification pursuant to paragraph 9(a) or 9(b) (subject to the limitations thereof) but it is found in a final judicial determination, not subject to further appeal, that such indemnification may not be enforced in such case, even though this Agreement expressly provides for indemnification in such case, or (ii) any indemnified or indemnifying party seeks contribution under the Act, the Exchange Act or otherwise because the indemnification provided for in this Section 9 is for any reason held to be unenforceable by the Company and the Holder and any holder, then the Company (including for this purpose any contribution made by or on behalf of any director of the Company, any officer of the Company who signed any such registration statement and any controlling person of the Company), as one entity, and the Holder and any holder of any of the Representative's Securities included in such registration in the aggregate (including for this purpose any contribution by or on behalf of the Holder or any holder), as a second entity, shall contribute to the losses, liabilities, claims, damages and expenses whatsoever to which any of them may be subject, on the basis of relevant equitable considerations such as the relative fault of the Company and the Holder or any such holder in connection with the facts which resulted in such losses, liabilities, claims, damages and expenses. The relative fault, in the case of an untrue statement, alleged untrue statement, omission or alleged omission, shall be determined by, among other things, whether such statement, alleged statement, omission or alleged omission relates to

information supplied by the Company, by the Holder or by any holder of Representative's Securities included in such registration, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, alleged statement, omission or alleged omission. The Company and the Holder agree that it would be unjust and inequitable if the respective obligations of the Company and the Holder for contribution were determined by pro rata or per capita allocation of the aggregate losses, liabilities, claims, damages and expenses (even if the Holder and the other indemnified parties were treated as one entity for such purpose) or by any other method of allocation that does not reflect the equitable considerations referred to in this paragraph 9(c). No person guilty of a fraudulent misrepresentation (within the meaning of Section 11 (f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this paragraph 9(c), each person, if any, who controls the Holder or any holder of any of the Representative's Securities within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partner, employee, agent and counsel of each such person, shall have the same rights to contribution as such person and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, each officer of the Company who shall have signed any such registration statement, and each director of the Company shall have the same rights to contribution as the Company, subject in each case to the provisions of this paragraph 9(c). Anything in this paragraph 9(c) to the contrary notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This paragraph 9(c) is intended to supersede any right to contribution under the Act, the Exchange Act or otherwise.

10. The securities issued upon exercise of the Representative's Options shall be subject to a stop transfer order and the certificate or certificates evidencing any such securities shall bear the following legend or a legend substantially similar thereto:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF (THE "SECURITIES") HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, PURSUANT TO A REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND WITH THE SECURITIES ADMINISTRATORS OF

CERTAIN STATES UNDER THE SECURITIES ("BLUE SKY") LAWS OF SUCH STATES. HOWEVER, NEITHER THE REPRESENTATIVE'S OPTIONS NOR SUCH SECURITIES MAY BE SOLD, TRANSFERRED, PLEDGED, OR HYPOTHECATED EXCEPT PURSUANT TO (I) A POST-EFFECTIVE AMENDMENT TO SUCH REGISTRATION STATEMENT, (II) A SEPARATE REGISTRATION STATEMENT UNDER SUCH ACT, OR (III) AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND UNDER THE APPLICABLE BLUE SKY LAWS.

11. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of any Representative's Option (and upon surrender of any Representative's Option if mutilated), and upon reimbursement of the Company's reasonable incidental expenses, the Company shall execute and deliver to the Holder thereof a new Representative's Option of like date, tenor and denomination.

12. The Holder of any Representative's Option shall not have, solely on account of such status, any rights of a stockholder of the Company, either at law or in equity, or to any notice of meetings of stockholders or of any other proceedings of the Company, except as provided in this Representative's Option.

13. This Representative's Option shall be construed in accordance with the laws of the State of Colorado, without giving effect to conflict of laws.

Dated: _____________________ , 2002

NATURAL GAS SERVICES GROUP, INC.

By: ___________________________________
Wayne L. Vinson, President

[SEAL]

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the attached Representative's Option.)

FOR VALUE RECEIVED, _______________ hereby sells, assigns and transfers unto ________________________________ Representative's Option to purchase _____________ Warrants of Natural Gas Services Group, Inc. (the "Company"), together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _______________________ attorney to transfer such Representative's Option on the books of the Company, with full power of substitution.

Dated: _______________________________

Signature: ___________________________

Signature Guaranteed:

NOTICE

The signature on the foregoing Assignment must correspond to the name as written upon the face of this Representative's Option in every particular, without alteration or enlargement or any change whatsoever. Signature(s) must be guaranteed by an eligible guarantor institution which is a participant in a Securities Transfer Association recognized program.

ELECTION TO EXERCISE

(To be executed by the holder if such holder desires to exercise the attached Representative's Option)

The undersigned hereby exercises his or its rights to subscribe for ______________ Warrants covered by the within Representative's Option (each as defined in the within Representative's Option) and tenders payment herewith in the amount of $______________ in accordance with the terms thereof, and requests that certificates for such Warrants be issued in the name of, and delivered to:

____

____

____

(Print Name, Address and Social Security or Tax Identification Number)

and, if such number of Warrants (or portions thereof) shall not be all the Warrants covered by the within Representative's Option, that a new Representative's Option for the balance of the Representative's Options (or portions thereof) covered by the within Representative's Option be registered in the name of, and delivered to, the undersigned at the address stated below.

Name: ____
(Print)

Address: ____

____
(Signature)

Dated: _______________________________________ Signature Guaranteed:

NOTICE

The signature on the foregoing Assignment must correspond to the name as written upon the face of this Representative's Option in every particular, without alteration or enlargement or any change whatsoever. Signature(s) must be guaranteed by an eligible guarantor institution which is a participant in a Securities Transfer Association recognized program.

Exhibit 10.01

NATURAL GAS SERVICES GROUP, INC.
1998 STOCK OPTION PLAN

1. Purposes of this Plan. The purposes of this 1998 Stock Option Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants and to promote the success of the Company's business. Options granted hereunder may be either "incentive stock options," as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or "nonstatutory stock options," at the discretion of the Board and as reflected in the terms of the written stock option agreement.

2. Definitions. As used herein, the following definitions shall apply:

a. "Board" shall mean the Committee, if one has been appointed, or the Board of Directors of the Company if no Committee is appointed.

b. "Code" shall mean the Internal Revenue Code of 1986, as amended.

c. "Common Stock" shall mean the $0.01 par value common stock of the Company.

d. "Company" shall mean Natural Gas Services Group, Inc., a Colorado corporation.

e. "Committee" shall mean the Committee appointed by the Board in accordance with paragraph (a) of Section 4 of this Plan, if one is appointed, or the Board if no committee is appointed.

f. "Consultant" shall mean any person who is engaged by the Company or by any Parent or Subsidiary to render consulting services and is compensated for such consulting services, but does not include a director of the Company who is compensated for services as a director only with the payment of a director's fee by the Company.

g. "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Board, provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

h. "Employee" shall mean any person, including officers and directors, employed by the Company or by any Parent or Subsidiary. The payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

i. "Incentive Stock Option" shall mean an Option which is intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and which shall be clearly identified as such in the written Stock Option Agreement provided by the Company to each Optionee granted an Incentive Stock Option under this Plan.

j. "Non-Employee Director" shall mean a director who:

(i) Is not currently an officer (as defend in Section 16a-1(1) of the Securities Exchange Act of 1934, as amended) of the Company or of a Parent or Subsidiary or otherwise currently employed by the Company or by a Parent or Subsidiary.

(ii) Does not receive compensation, either directly or indirectly, from the Company or from a Parent or Subsidiary, for services rendered as a Consultant or in any capacity other than as a director, except for an amount that does not exceed the dollar amount for which disclosure would be required pursuant to Item 404(a) of Regulation S-K adopted by the United States Securities and Exchange Commission.

(iii) Does not possess an interest in any other transaction for which disclosure would be required pursuant to Item 404(a) of Regulation S-K adopted by the United States Securities and Exchange Commission.

k. "Nonstatutory Stock Option" shall mean an Option granted under this Plan which does not qualify as an Incentive Stock Option and which shall be clearly identified as such in the written Stock Option Agreement provided by the Company to each Optionee granted a Nonstatutory Stock Option under this Plan. To the extent that the aggregate fair market value of Optioned Stock to which Incentive Stock Options granted under Options to an Employee are exercisable for the first time during any calendar year (under this Plan and all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such Options shall be treated as Nonstatutory Stock Options under this Plan. The aggregate fair market value of the Optioned Stock shall be determined as of the date of grant of each Option and the determination of which Incentive Stock Options shall be treated as qualified incentive stock options under Section 422 of the Code and which Incentive Stock Options exercisable for the first time in a particular year in excess of the $100,000 limitation shall be treated as Nonstatutory Stock Options shall be determined based on the order in which such Options were granted in accordance with Section 422(d) of the Code.

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

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

n. "Optionee" shall mean an Employee or other person who is granted an Option.

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

p. "Plan" shall mean this 1998 Stock Option Plan.

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

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

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

3. Stock Subject to this Plan. Subject to the provisions of Section 11 of this Plan, the maximum aggregate number of Shares which may be optioned and sold under this Plan is 150,000 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock. If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless this Plan shall have been terminated, become available for future grant under this Plan.

4. Administration of this Plan.

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

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

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

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

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

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

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

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

(v) To interpret this Plan;

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

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

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

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

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

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

5. Eligibility.

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

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

6. Term of Plan. This Plan became effective on December 18, 1998. It shall continue in effect until December 17, 2008, unless sooner terminated under Section 13 of this Plan.

7. Term of Option. The term of each Option shall be 10 years from the date of grant thereof or such shorter term as may be provided in the Stock Option Agreement. However, in the case of an Option granted to an Optionee who, at the time the Option is granted, owns stock

representing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, if the Option is an Incentive Stock Option, the term of the Option shall be five years from the date of grant thereof or such shorter time as may be provided in the Stock Option Agreement.

8. Exercise Price and Consideration.

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

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

(ii) If granted to any other Employee, the per Share exercise price shall not be less than 140% of the fair market value per Share on the date of grant.

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

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

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

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

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

9. Exercise of Option.

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

In the sole discretion of the Board, at the time of the grant of an Option or subsequent thereto but prior to the exercise of an Option, an Optionee may be provided with the right to exchange, in a cashless transaction, all or part of the Option for Common Stock of the Company on terms and conditions determined by the Board.

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

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

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

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

c. Disability of Optionee. In the case of an Incentive Stock Option, notwithstanding the provisions of Section 9(b) above, in the event an Employee is unable to continue his employment with the Company as a result of his total and permanent disability (as defined in Section 22(e)(3) of the Code), he may, but only within such period of time not exceeding 12 months as is determined by the Board at the time of grant of the Option from the date of termination, exercise his Option to the extent he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise the Option at the date of termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

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

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

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

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

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

In the event of the proposed dissolution or liquidation of the Company, the Option will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. The Board may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. In the event of the proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into

another entity in a transaction in which the Company is not the survivor, the Option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the Optionee shall have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. If the Board makes an Option fully exercisable in lieu of assumption or substitution in the event of such a merger or sale of assets, the Board shall notify the Optionee that the Option shall be fully exercisable for a period of 30 days from the date of such notice, and the Option will terminate upon the expiration of such period.

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

13. Amendment and Termination of this Plan.

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

(i) An increase in the number of Shares subject to this Plan above 400,000 Shares, other than in connection with an adjustment under Section 11 of this Plan;

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

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

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

14. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, applicable state securities laws, and the

requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of legal counsel for the Company with respect to such compliance.

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

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

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

17. Shareholder Approval. Continuance of this Plan shall be subject to approval by the shareholders of the Company on or before December 17, 1999. Such shareholder approval and any shareholder approval required under Section 13 of this Plan, may be obtained at a duly held shareholders meeting if the votes cast in favor of the approval exceed the votes cast opposing the approval, or by unanimous written consent of the shareholders in accordance with the provisions of the Colorado General Corporation Act.

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

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

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

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Plan effective as of December 18, 1998.

NATURAL GAS SERVICES GROUP, INC.,
a Colorado corporation

By: /s/ Burnace J. Boles, Jr.

Burnace J. Boles, Jr., President

Exhibit 10.02

ASSET PURCHASE AGREEMENT

ENTERED INTO AND EFFECTIVE

AS OF JANUARY 1, 2001,

BY AND BETWEEN

NATURAL GAS ACQUISITION CORPORATION (THE "BUYER")

AND

GREAT LAKES COMPRESSION, INC. (THE "SELLER")

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ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (the "Agreement") is entered into and is effective as of January 1, 2001, by and between Natural Gas Acquisition Corporation, a State of Colorado corporation, located at 2911 SCR 1260, Midland, Texas 79706 (the "Buyer") and Great Lakes Compression, Inc., a State of Michigan corporation, located at 16945 Northchase Drive, Suite 1750, Houston, Texas 77060 (the "Seller"). The Buyer and the Seller are referred to herein collectively as the "Parties" and severally as a "Party."

RECITALS

A. Seller owns, manages and operates a business (the "Compression Business") engaged (1) in the manufacture, fabrication, sales and leasing of natural gas compressors and gas compressor equipment that it markets and distributes regionally to oil and gas producers, and (2) in the providing of service and maintenance for natural gas compressors sold and leased by it or by other manufacturers.

B. Buyer desires to purchase from Seller and Seller desires to sell to Buyer substantially all of the tangible and intangible assets used in, held for the use in, and held for the benefit of the Compression Business.

C. Buyer and Seller desire to enter into this Agreement to effect the purchase and sale of such assets, free and clear of all liens and encumbrances except as created pursuant to this Agreement, pursuant to the terms and conditions set forth herein.

TERMS OF AGREEMENT

Now therefore, in consideration of the premises and the mutual promises made in this Agreement, and in consideration of the representations, warranties and covenants contained herein, the Parties agree as follows:

1. Assets to be Purchased. Subject to the provisions of this Agreement, Buyer agrees to purchase and Seller agrees to sell all of Seller's right, title and interest in and to all operating compression related assets of Seller existing as of the Closing Date (as hereinafter defined) that are necessary to continue the Compression Business of Seller (the "Acquired Assets"). The Acquired Assets include the following:

(a) The tangible fixed assets owned or leased by Seller described on Schedule 1(a), including the equipment, machinery, furniture, trucks, tractors, trailers, tools, dies, jigs and real estate;

(b) The compression fleet assets owned or leased by Seller described on Schedule 1(b), including compressors utilized as Seller's rental fleet and all of Seller's Compression Business inventory. These assets shall include manufactured and purchased parts, work in process, supplies, packaging goods, inventory and back orders;

(c) All leases of compressors by Seller and all leases of Seller's compressors (including leased compressors) to third parties, whether such leases are written or verbal, including all rights to monthly rental and service revenue relating thereto and obligations for lease expenses associated therewith, all as described on Schedule 1(c);

(d) All service only contracts for reciprocating compressors owned by Dominion Midwest Energy, Inc., and monthly service revenue associated therewith as described on Schedule 1(d);

(e) All service only contracts for rotary compressors owned by Dominion Midwest Energy, Inc., and monthly service revenue associated therewith as described on Schedule 1(e);

(f) The intangible Compression Business assets owned by Seller, including but not limited to, the current corporate name (Great Lakes Compression, Inc.), the assumed name variations associated with that corporate name and the patents, trademarks, service marks, trade names, copyrights and applications, all as set forth on Schedule 1(f); and

(g) Any other item of Seller necessary to ensure continuity in operation of the Compression Business by Buyer, including but not limited to back orders and orders under evaluation.

2. Effective Date and Time of Purchase. The effective date of the sale of the Acquired Assets shall be January 1, 2001, at 12:01 a.m. Eastern Standard Time (the "Effective Date").

3. Closing; Termination.

(a) The closing of the purchase and sale of the Acquired Assets (the "Closing") shall occur on March 21, 2001, unless both Parties agree to extend the date of the Closing to a later date, or the date of the Closing is extended as further provided in this Agreement. The date on which the Closing actually takes place is referred to herein as the "Closing Date." The Closing shall be held at the offices of Dominion Exploration and Production Inc. ("DEPI"), 4 Greenspoint Plaza, Suite 1750, 16945 Northchase Drive, Houston, Texas 77060.

(b) At the Closing, Seller shall convey the Acquired Assets to Buyer by the following instruments:

(1) A Warranty Deed, the form of which is attached hereto as Exhibit 3(b)(1), conveying the real estate described on Schedule 1(a) attached hereto to Buyer, free and clear of all liens and encumbrances except as created pursuant to this Agreement.

(2) A Bill of Sale, the form of which is attached hereto as Exhibit 3(b)(2).

(3) An Assignment of Contracts and Contract Rights, the form of which is attached hereto as Exhibit 3(b)(3).

(4) All other documents reasonably determined by Buyer and the closing title insurance company to be necessary to transfer the Acquired Assets to Buyer free and clear of all liens and encumbrances except as created pursuant to this Agreement.

(c) At the Closing, Buyer shall execute and deliver, or cause to be executed and delivered, the following instruments:

(1) A guaranty agreement (the "Guaranty"), the form of which is attached hereto as Exhibit 3(c)(1), by Natural Gas Services Group, Inc. ("Guarantor") for the benefit of Seller, guaranteeing all of Buyer's obligations under this Agreement and the Collateral Documents (as hereinafter defined).

(2) A security agreement (the "Security Agreement"), the form of which is attached hereto as Exhibit 3(c)(2), between Buyer and Seller, pursuant to which Buyer grants to Seller a lien and security interest in all of the non-real estate Acquired Assets and all of the equipment, inventory, accounts and other non-real estate assets (tangible and intangible) Buyer may from time to time own or possess, to secure Buyer's obligations under this Agreement and the Collateral Documents.

(3) A mortgage (the "Mortgage"), the form of which is attached hereto as Exhibit 3(c)(3), between Buyer and Seller,, pursuant to which Buyer grants to Seller a lien on all real estate Acquired Assets to secure Buyer's obligations under this Agreement and the Collateral Documents.

(4) A stock pledge agreement (the "Pledge Agreement"), the form of which is attached hereto as Exhibit 3(c)(4), by Guarantor, pursuant to which Guarantor pledges to Seller all of the capital stock in Buyer to secure Buyer's obligations under this Agreement and the Collateral Documents.

(5) UCC-1 financing statements, the forms of which are attached hereto as Exhibit 3(c)(5), with respect to the Collateral (as hereinafter defined), duly filed in all appropriate offices.

(6) Such other agreements, certificates, documents and instruments as Seller may reasonably require in order to evidence, secure or perfect Buyer's obligations with respect to the Deferred Purchase Price and Seller's liens and security interest in the Collateral.

(d) If the Closing does not occur on or before March 21, 2001, and the cause of such non-occurrence is that all conditions of Closing precedent to a Party's obligation to close, as set forth in Sections 13 or 14 hereof, as applicable, have not been satisfied or waived by the other Party, then the Party who is not obligated to close because certain conditions precedent to that Party's obligation have not been satisfied may elect, at any

time after such date and notwithstanding any provision of this Agreement providing for an extension of the date of the Closing, to terminate this Agreement without liability to the terminating Party by giving notice of such termination to the other Party; provided, however, that the terminating Party is not, at the time of giving such termination notice, in breach of any of its covenants, warranties or obligations hereunder.

4. Purchase Price. Subject to such adjustments as may be provided for herein, Buyer shall pay to Seller, at the Closing, Eight Million Dollars ($8,000,000) (the "Purchase Price") for all of Seller's right, title and interest in and to the Acquired Assets. The Purchase Price is allocated among the Acquired Assets as provided on Schedule 4. The Purchase Price shall be paid by Buyer in the following manner:

(a) Buyer agrees to pay the sum of One Million Dollars ($1,000,000) (the "Down Payment") to Seller on the Closing Date. The payment shall be made by wire to Seller's account. Wiring instructions shall be provided by Seller to Buyer not less than 24 hours prior to the Closing.

(b) Buyer agrees to pay the sum of Seven Million Dollars ($7,000,000), as adjusted in accordance with Sections 5(e) and 5(f), below, (the "Deferred Purchase Price") to Seller, or order, together with interest thereon, as follows:

(1) Interest shall accrue on the unpaid balance of the Deferred Purchase Price from the Effective Date until the Deferred Purchase Price is paid in full at a rate equal to nine percent (9%) per annum (the "Interest Rate"). Interest shall be paid for the actual number of days elapsed based on a 360-day year. Accrued interest shall be payable on the first business day of each month.

(2) If not sooner paid, the entire amount of Deferred Purchase Price remaining outstanding shall be due and payable in full on the date (the "Final Payment Date") that is two (2) years after the Closing Date. The Deferred Purchase Price may be prepaid in whole or in part at any time and from time to time. No partial prepayment shall affect the obligation of Buyer to make any payment of interest or any portion of the Deferred Purchase Price on the date due or to pay the entire balance of the Deferred Purchase Price on the Final Payment Date. Payments or prepayments with respect to the Deferred Purchase Price shall be applied first to accrued and unpaid interest and then to the balance of the Deferred Purchase Price.

(3) As and when Buyer sells any item included in the Acquired Assets, Buyer shall, within fifteen (15) days of receipt by Buyer of the consideration for such sale, prepay to Seller a portion of the Deferred Purchase Price equal to 0.875 multiplied by the amount of the Purchase Price allocable to such item according to the allocation of Purchase Price set forth in Schedule 4.

(4) On or before the 15th day of each calendar month, Seller shall endeavor to send to Buyer an invoice with a calculation of the interest to be due on the first day of the following month and with wiring instructions for Buyer to

make such payment. If Seller has provided wiring instructions for such payment, Buyer shall make each payment of interest and any portion of the Deferred Purchase Price then due in Federal funds to the account identified in Seller's instructions. The failure of Seller to send such invoice or wiring instructions shall not relieve Buyer of its obligation to make the payment when due, and in such case Buyer shall calculate the interest and shall send the required payment in accordance with the wiring instructions last provided by Seller.

(5) If any payment of interest or of the Deferred Payment Price is not paid when due, then such overdue payment thereafter shall bear interest until the overdue payment is made at an annual default rate equal to the Interest Rate plus five percent (5%) (the "Default Rate"). In addition, Buyer shall pay to Seller a late charge equal to five percent (5%) of any amount that is not received within ten (10) days after its due date. Acceptance by Seller of any late payment without interest at the Default Rate or without an accompanying late charge shall not be deemed a waiver of Seller's right to receive interest at the Default Rate or such late charge with respect to such payment or any subsequent payment received more than ten days after its due date.

(6) Buyer agrees to pay all expenses, including court costs and reasonable attorneys' fees, incurred in collecting the Deferred Purchase Price and interest thereon, in preserving or disposing of any collateral given as security for the payment of the Deferred Purchase Price or in defending or prosecuting any action relating to the Deferred Purchase Price.

(7) Buyer and each guarantor of Buyer's obligations with respect to the Deferred Purchase Price jointly and severally (i) waive presentment, demand, protest and notice of dishonor, (ii) waive, to the extent permitted by law, all exemptions, whether homestead or otherwise, as to the obligation to pay the Deferred Purchase Price, to pay interest thereon and to pay all other sums due under this Agreement or the Collateral Documents with respect to the Deferred Purchase Price or any collateral therefor (collectively, the "Deferred Purchase Obligations"), (iii) waive any right which they may have to require Seller to proceed against any other party or foreclose on any collateral given to secure the payment of the Deferred Purchase Obligations, (iv) agree that, without notice to any party to this Agreement and without affecting any such party's liability, Seller, at any time or times, may grant extensions of the time for any payment under this Agreement, release any such party from its obligation to make payments with respect to the Deferred Purchase Obligations, permit the renewal of the Deferred Purchase Obligations or permit the substitution, exchange or release of any security or collateral for the Deferred Purchase Obligations, (v) waive any right they may have to require reinstatement of the Deferred Purchase Obligations after the occurrence of an Event of Default (as hereinafter defined) and (vi) waive, to the extent permitted by law, any right they may have to a trial by jury in any action or proceeding to enforce or collect the Deferred Purchase Obligations, whether such action or proceeding is instituted by Seller, Buyer or any other party.

(8) Nothing contained in this Agreement shall require Buyer to pay interest at a rate exceeding the maximum rate permitted without penalty by applicable law to be charged by Seller. If the amount of interest will exceed the maximum amount permitted without penalty by applicable law to be charged by Seller, the amount of such interest shall be automatically reduced to such maximum permissible amount.

(9) Except as provided in Sections 5(e) and 5(f), no post-closing adjustments to the Purchase Price or indemnification obligations of the Parties provided for in this Agreement shall affect the amount of, or Buyer's obligation to pay, the Deferred Purchase Price. All of the Deferred Purchase Obligations shall be absolute and unconditional and independent of any and all of Seller's obligations and liabilities under this Agreement or under any other agreement, whether arising before, on or after the Closing Date, and Buyer shall have no right of offset or deduction with respect to the Deferred Purchase Obligations.

5. Adjustments of Purchase Price. The Parties acknowledge that accounts receivable and accounts payable with respect to the Acquired Assets have been generated and will be generated before, on and after the Effective Date and before, on and after the Closing. The Purchase Price shall be adjusted with respect to accounts receivable and accounts payable as follows:

(a) Buyer shall not be responsible for costs and expenses incurred in the operation of the Compression Business prior to the Effective Date. All accounts payable by Seller relating to costs and expenses accruing prior to the Effective Date shall remain the responsibility of Seller. Except as provided in Section 12, below, Seller shall not be responsible for costs and expenses incurred in the operation of the Compression Business after the Effective Date, and all accounts payable generated by the Compression Business relating to the costs and expenses accruing after the Effective Date shall be the responsibility of Buyer. The Purchase Price shall be reduced by the amount of any account payable for which Seller is responsible that is paid by Buyer in connection with the post-closing operation of the Compression Business. The Purchase Price shall be increased by the amount of any account payable for which Buyer is responsible that is paid by Seller.

(b) All revenue generated by the Compression Business of Seller prior to the Effective Date shall belong to Seller. All revenue generated by the Compression Business after the Effective Date shall belong to Buyer. Accounts receivable generated by operation of the Compression Business by Seller prior to the Effective Date shall be invoiced by Seller and all payments received thereon shall belong to Seller. Accounts receivable generated by operation of the Compression Business on and after the Effective Date until the Closing Date shall be invoiced by Seller unless Buyer notifies Seller that Buyer will invoice such accounts receivable, and all payments received thereon shall belong to Buyer. In these regards, Seller shall be entitled to rentals paid under the compressor leases covering lease periods ending on the Effective Date and to payment for services rendered under service and maintenance agreement until the Effective Date. Seller shall not, however, be entitled to any part of revenue received by Buyer upon the

sale of equipment from the inventory and work in progress included in the Acquired Assets even though Seller may have accrued costs and expenses in relation thereto prior to the Effective Date. The Purchase Price shall be increased to include any account receivable to which Seller is entitled collected by Buyer in connection with the post-closing operation of the Compression Business. The Purchase Price shall be reduced by the amount of any account receivable to which Buyer is entitled that is collected by Seller.

(c) The responsibility for real and personal property taxes payable on the real and personal property included in the Acquired Assets shall not be prorated. Rather, Seller shall be responsible for all real and personal property taxes for calendar year 2000 and prior calendar years and Buyer shall be responsible for all real and personal property taxes for calendar year 2001 and thereafter.

(d) Seller shall pay the cost of the title insurance as provided in Section 13(e). Seller and Buyer will each pay one-half of any reasonable and customary closing fee or charge imposed by any closing agent designated by the closing title insurance company. Seller will pay all state deed tax regarding the Warranty Deed to be delivered by Seller hereunder. Seller will pay the cost of recording all documents necessary to place record title in the condition warranted by Seller in this Agreement. Buyer will pay the cost of recording all other documents.

(e) Seller has heretofore prepared and delivered to Buyer, in accordance with this Agreement and with generally accepted accounting principles consistently applied, a settlement statement setting forth Seller's estimate of all forecasted post-closing adjustments pursuant to the provisions of this Section 5; associated calculations and the amount to be paid to Seller by Buyer at Closing (the "Preliminary Settlement Statement"). At the Closing, Buyer and Seller shall sign the Preliminary Settlement Statement to acknowledge their agreement to the provisions thereof and the Deferred Purchase Price under Section 4(b) shall be increased or reduced accordingly, effective as of the Effective Date.

(f) As soon as reasonable practicable after Closing, but in no event later than 90 days after Closing, Seller shall prepare and deliver to Buyer, in accordance with this Agreement and with generally accepted accounting principles consistently applied, a final settlement statement setting forth any adjustments or payments pursuant to the provisions of this Section 5 that were not finally determined as of Closing, the associated calculations and the resulting amount (the "Final Settlement Statement"). On or before five business days after Buyer's receipt of the Final Settlement Statement, Buyer shall deliver to Seller a written report containing any changes that Buyer proposes to be made in the Final Settlement Statement. The Parties shall agree with respect to the changes proposed by Buyer within five business days after Seller's receipt of Buyer's written report, and the date on which the final Purchase Price is established, which in no event shall be later than 105 days after the Closing, shall be called the "Final Settlement Date". If the Parties cannot agree regarding the Final Settlement Statement, the dispute shall be resolved as provided in Section 21. Adjustments pursuant to this Section 5(f) shall

increase or decrease the Deferred Purchase Price under Section 4(b) effective as of the Effective Date.

(g) If, after the Final Settlement Statement, Seller at any time receives a payment which is payable in whole or in part to Buyer pursuant to this Section 5, such payment shall be held in trust for Buyer, and Seller shall pay to Buyer within 10 days of receipt by Seller the amount of the payment due to Buyer pursuant to this Agreement. Similarly, if Buyer receives a payment which is payable in whole or in part to Seller pursuant to this Section 5, Buyer shall hold such payment in trust for Seller and Buyer shall pay to Seller within 10 days of receipt by Buyer the amount of the payment due Seller pursuant to this Agreement. If either Party pays an invoice that is an obligation of the other Party under this Section 5, the Party subject to the obligation shall refund to the paying Party the amount paid within 10 days after receiving from the paying Party a copy of the invoice and proof of payment.

6. Acquisition of Rights and Assumptions of Obligations and Liabilities.

(a) Upon the Closing and as of the Effective Date, Buyer shall acquire any and all rights arising from or attributable to the Acquired Assets.

(b) Upon the Closing and as of the Effective Date, Buyer shall assume any and all obligations and liabilities arising from or attributable to the Acquired Assets, including without limitation, obligations and liabilities relating to any loss, damage, cost, liability or expense (including without limitation, damage to property, injury or death to persons, court costs and reasonable attorney fees) or penalties or fines arising from or attributable to ownership, management or operation of the Acquired Assets on and after the Effective Date.

(c) Except for Buyer's assumption, after the Effective Date, of Seller's obligations arising under leasehold agreements and service contracts included in the Acquired Assets, Buyer does not assume and shall have no responsibility for discharging the liabilities of Seller, whether incurred or accrued prior to or after the Effective Date. No such assumption shall be implied or construed by operation of law or otherwise. All indebtedness, obligations, claims and liabilities (absolute, contingent or otherwise) of whatsoever nature of Seller arising prior to the Effective Date (including all obligations under leasehold agreements and service contracts included in the Acquired Assets) shall be and remain the sole obligation of Seller.

7. Conduct of Business in Ordinary Course. Between November 29, 2000 and the Closing Date, Seller has conducted and shall conduct the Compression Business and engage in transactions only in the ordinary course of business and consistent with past operating practices, except as disclosed to and approved by Buyer in writing. During that period, Seller shall use its best efforts to (i) preserve its business organization intact, (ii) keep available to itself and to Buyer the present services of the employees of Seller, and (iii) preserve for itself and for Buyer the goodwill of the customers of Seller and of others with whom Seller's business relationships exist. During that time period Seller shall not, except as otherwise disclosed to and approved by Buyer in writing or as otherwise permitted by this Agreement, (i) sell or otherwise dispose of or

liquidate any of the assets of Seller except those that will be conveyed to Seller's related entities as disclosed on Schedule 7; (ii) except as may be otherwise required by regulatory authorities, grant any severance or termination pay to, or enter into or amend any employment agreement with, any of its employees, officers or directors, except for such payments pursuant to agreements between Seller and any employee which are in existence as of the date hereof and which have been disclosed to Seller or are necessary to retain employees; (iii) make any capital expenditures for fixed assets other than pursuant to binding commitments existing on the date hereof and other than expenditures necessary to maintain existing assets in good repair; (iv) change its pricing policies or approval policies for equipment sales or leases; (v) acquire assets other than those necessary in the conduct of its business in the ordinary course; (vi) sell or otherwise divest itself of assets, except as provided for in this Agreement or has been customary in the ordinary course of Seller's business; (vii) negotiate or re-negotiate any long-term contracts except as required above; (viii) increase any benefits currently offered by Seller, including but not limited to cash compensation arrangements without the prior written consent of Buyer, provided however, Seller may allow employees to enroll in Seller's benefit program for calendar year 2001 and pay out any short-term incentive awards due to calendar year 2000 performance; or (ix) agree to do any of the foregoing.

8. Current Information. If for any reason the Closing shall be delayed for any significant period of time after execution of this Agreement, Seller will designate one or more representatives to confer with Buyer on a regular basis until the Closing Date and, upon Buyer's request, to report the general status of the ongoing Compression Business operations of Seller. Without limiting the foregoing, Seller shall confer with Buyer regarding any proposed significant changes to Seller's asset/liability management policy and objectives. Seller shall promptly notify Buyer of any material change in its normal course of business or in the operation of the properties of Seller or of its subsidiaries, and of any governmental complaints, investigations or hearings or communications that the same may be contemplated, or of the institution or threat of any litigation involving the Seller or its subsidiaries, and shall keep Buyer fully informed as to such events.

9. Seller's Representations and Warranties. Seller represents and warrants that:

(a) Existence. Seller is a corporation, duly organized and validly existing and in good standing under the laws of the State of Michigan.

(b) Power. Seller has the requisite power and authority to enter into and to perform this Agreement and the transactions contemplated hereby. The execution, delivery and performance of this Agreement by Seller, and the transactions contemplated hereby will not violate any provision of Seller's certificate, articles of incorporation, bylaws or other governing documents, and to the best knowledge and belief of Seller, will not (i) conflict with, result in a breach of or constitute a default (or an event that with a lapse of time or notice, or both, would constitute a default) under any agreement or instrument to which Seller is a party or by which Seller is bound, (ii) violate any judgment, order, ruling or decree applicable to Seller and entered or delivered in a proceeding in which Seller was or is a named party, or (iii) violate any applicable law, rule or regulation applicable to Seller.

(c) Authorization. The execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite action on the part of the Seller. This Agreement has been duly executed and delivered on behalf of Seller, and all documents and instruments required hereunder to be executed and delivered by Seller at the Closing shall be duly executed and delivered. This Agreement and such documents and instruments shall constitute legal, valid and binding obligations of Seller, enforceable in accordance with their terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium and other rights affecting creditors' rights generally from time to time in effect and to general equitable principles.

(d) Brokers. Seller has not incurred any obligation or liability, contingent or otherwise, for brokers or finders fees in respect to the matters provided for in this Agreement that would be the responsibility of Buyer, and any such liability or obligation that might exist shall be the sole obligation of Seller.

(e) Foreign Person. Seller is not a "foreign person" within the meaning of Section 1445(f) of the United States Internal Revenue Code of 1986, as amended. Seller shall execute the Certificate of Non-Foreign Status that is attached hereto as Exhibit 9(e).

(f) Litigation. No lawsuit, action or other proceeding of which Seller has been notified affects any of the Acquired Assets, whether pending or threatened in writing.

(g) Condition of Contracts. To the best of Seller's knowledge, Seller's compressor leases and service contracts are in full force and effect, as of the Effective Date, in accordance with their stated terms and conditions and subject to any unexercised rights of termination set forth therein. Seller has granted Buyer access to all of Seller's files relating to such contracts; however, Seller has advised Buyer that some of such contracts are verbal only and may be terminated by the other party thereto at any time.

(h) Prepayments. Seller has received no prepayments from its customers for works in progress or inventory included in the Acquired Assets, or under compressor leases for lease periods after the Effective Date or under service and maintenance agreements for service and maintenance to be performed after the Effective Date.

(i) Title to and Other Matters Pertaining to Real Property and Acquired Assets.

(1) Seller has good, valid and marketable fee simple title to the real property described in Schedule 1(a) (the "Real Property") free and clear of all mortgages, liens, security interests, hypothecations, rights of others, leases, subleases, occupancy agreements, adverse claims or interests, easements, covenants, title retention agreements, burdens, title defects, encroachments or other encumbrances of any kind or nature (collectively, "Liens") except as created pursuant to this Agreement, except easements and rights of way identified in that Commitment for Title Insurance dated February 20, 2001 by First American Title

Insurance Company; provided however, Seller does not own the oil, gas, coal and mineral rights in and under the Real Property. The Real Property was last surveyed on September 28, 1995 by Donald E. Marlatt, Surveyor No. 18660, a copy of which survey has been provided by Seller to Buyer. Seller has no reason to believe that such survey is not accurate in any respect. Seller has not granted any easements over the Real Property. There are no outstanding contracts, options or rights of first refusal to purchase the Real Property or any portion thereof or interest therein. The Real Property has access to public roads and to utilities, including electricity, natural gas and other utilities, used in the operation of the Compression Business at that location.

(2) Seller owns good and marketable title to the Acquired Assets other than the Real Property (see paragraph (1) above) free and clear of all Liens.

(3) Schedules 1(a), (b), (c), (d), (e) and (f) set forth a description of all the Acquired Assets now owned or leased and used by Seller in the Compression Business, except as described in Schedule 9(i)(3).

(4) To the best of Seller's knowledge, Seller is not in violation of any applicable zoning ordinance or other law, regulation or requirement relating to the operation of the Real Property or the Acquired Assets and Seller has not received any notice of any such violation, or the existence of any condemnation proceeding with respect to the Real Property.

(5) To the best of Seller's knowledge, there are no improvements made or contemplated to be made by any public or private authority, the costs of which are to be assessed as special Taxes or charges against any of the Real Property, and there are no present assessments.

(6) Seller has received no notice of actual or threatened reduction or curtailment of any utility service now supplied to the Real Property.

(7) Seller has received no notice of actual or threatened cancellation or suspension of any certificates of occupancy for any portion of the Real Property.

(8) To the best of Seller's knowledge, Seller is not in default concerning any of its obligations or liabilities regarding the Real Property.

(9) To the best of Seller's knowledge, the buildings, structures and improvements included within the Real Property are structurally sound and in reasonably good repair and all mechanical, electrical, heating, air conditioning, drainage, sewer, water and plumbing systems are in working order.

(j) Tax Matters.

(1) Seller has, or by the Closing will have, duly and timely filed all returns, reports, declarations, forms, statements, claims for refunds, schedules and other documents relating to Taxes (collectively, "Tax Returns") in connection

with the Compression Business that are required to be filed on or before the Closing Date and Seller has duly and timely paid all Taxes required to be paid on or before the Closing Date.

(2) For purposes of this Agreement, the term "Taxes" means all taxes, charges, fees, levies, or other assessments, including, without limitation, all net income, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, withholding, payroll, employment, social security, unemployment, excise, estimated, severance, stamp, value added, occupation, property, or other taxes, customs duties, fees, levies, assessments, or charges of any kind whatsoever, including, without limitation, all interest and penalties thereon, and additions to taxes or additional amounts imposed by any taxing authority, domestic or foreign, upon Seller or the Acquired Assets.

(k) Intellectual Property Rights.

(1) Schedule 1(f) describes all rights in (i) patents, trademarks, service marks, trade names, corporate names and copyrights, and applications filed in connection with any of the foregoing, (ii) MIS assets and (iii) mask works, trade secrets or other intellectual property rights owned by, licensed to or otherwise controlled by Seller and used in or developed for use in the Compression Business (collectively, the "Intellectual Property Rights"). Seller owns and possesses all right, title and interest, or holds a valid license, in and to the Intellectual Property Rights set forth in Schedule 1(f). Schedule 1(f) describes all Intellectual Property Rights which have been licensed to third parties and those Intellectual Property Rights which are licensed from third parties. All of the Intellectual Property Rights will be assigned to Buyer at the Closing, without the requirement that any consent to assignment be obtained or any payment be made.

(2) Seller has not received any notice of, nor are there any facts known to Seller, which indicate a likelihood of, any infringement or misappropriation by, or conflict from, any third party with respect to the Intellectual Property Rights. No claim by any third party contesting the validity of any Intellectual Property Rights has been made, is currently outstanding or, to Seller's best knowledge, is threatened. Seller has not been notified of any claim that Seller has, and to the best of Seller's knowledge, Seller has not, infringed, misappropriated or otherwise violated any intellectual property rights of others.

(l) Employees. Schedule 9(1) hereto sets forth a complete and accurate list of all employees that work in the Compression Business. No employee working in the Compression Business on the Closing Date has notified Seller of any plans to terminate his or her employment. To the best of Seller's knowledge, Seller has complied with all laws relating to the employment of labor, including provisions thereof relating to wages, hours, equal opportunity, collective bargaining and the payment of overtime, social security and other Taxes, and has no material labor relations problem pending and its labor relations are satisfactory. Notwithstanding the foregoing or any disclosure set forth in Schedule 9(1), Buyer shall not be responsible for and shall not assume any obligation

of Seller or its Affiliates pursuant to any written or oral employment agreement between Seller or its Affiliates and the employees, consultants, or representatives of Seller or its Affiliates. Seller is not aware of any event prior to the Closing Date that would result in any liability for which Buyer will be responsible to any such employee, consultant or representative of Seller or its Affiliates.

(m) Employee Benefit Plans.

(1) To the extent required (either as a matter of law or to obtain the intended tax treatment and tax benefits), all qualified employee benefit plans, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974 ("ERISA") which Seller does maintain or to which it does contribute (collectively, the "Plans") comply, in all material respects, with the requirements of ERISA and the Code. With respect to the Plans, (i) all required contributions which are due have been made and a proper accrual has been made for all contributions due in the current fiscal year; (ii) there are no actions, suits or claims pending, other than routine uncontested claims for benefits; and (iii) there have been no prohibited transactions (as defined in Section 406 of ERISA or Section 4975 of the Code).

(2) Seller does not contribute (and has not ever contributed) to any multi-employer plan, as defined in Section 3(37) of ERISA. Seller has no actual or potential liabilities under Section 4201 of ERISA for any complete or partial withdrawal from a multi-employer plan. Seller has no actual or potential liability for death or medical benefits after separation from employment, other than (i) death benefits under the employee benefit plans or programs (whether or not subject to ERISA) and (ii) health care continuation benefits described in Section 4980B of the Code.

(3) To the best of Seller's knowledge, neither Seller nor any of its directors, officers, employees or other "fiduciaries," as such term is defined in Section 3(21) of ERISA, has committed any breach of fiduciary responsibility imposed by ERISA or any other applicable law with respect to the Plans which would subject Buyer, Buyer's subsidiaries or any of their respective directors, officers, employees or affiliates to any liability under ERISA or any applicable law.

(4) To the best of Seller's knowledge, Seller has not incurred any liability for any tax or civil penalty or any disqualification of any employee benefit plan (as defined in Section 3(3) of ERISA) imposed by Sections 4980E and 4975 or Part 6 of Title I of the Code or Section 502(i) or 502(1) of ERISA or the health care coverage continuation requirements of any applicable state law which have not been settled in full with no continuing liability or obligation of Seller applicable to the Compression Business.

(5) Seller or an Affiliate of Seller shall be liable for providing continuation of group health plan coverage as required by Section 4980B of the Code and applicable regulations ("COBRA") for all M&A Qualified Beneficiaries (as that term is defined in Prop. Treas. Reg. Section 54.4980B-9 Q/A 4) to employees of Seller whose employment has been terminated by Seller; provided however, that liability shall terminate on March 22, 2001 as to any former employee of Seller that is hired by Buyer as provided in Section 26, below and Buyer shall assume any such liability as to that employee that arises on or after that date.

(n) Compliance with Laws; Permits.

(1) To the best of Seller's knowledge, Seller and its officers, directors, agents and employees have complied with all applicable federal, state, local and foreign laws, ordinances, rules, regulations and other requirements (collectively, "Laws") pertaining to consumer products safety, equal employment opportunity, employee retirement, affirmative action and other hiring practices, occupational safety and health, workers' compensation, unemployment and building and zoning codes, which affect the Compression Business or the Acquired Assets and to which Seller may be subject, and no claims have been filed against Seller alleging a violation of any such laws, regulations or other requirements. Seller has no knowledge of any action, pending or threatened, to change the zoning or building ordinances or any other laws, rules, regulations or ordinances affecting the Compression Business or the Acquired Assets or Real Property. Seller is not relying on any exemption from or deferral of any such zoning or building ordinance or any such law, rule, regulation or other requirement that, to the best of Seller's knowledge, would not be available to Buyer after it acquires the Acquired Assets.

(2) To the best of Seller's knowledge, Seller has, in full force and effect, all licenses, permits and certificates from Governmental Entities necessary to conduct the Compression Business and own and operate the Acquired Assets (other than Environmental Permits) (collectively, the "Permits") and has conducted the Compression Business in compliance, in all material respects, with all terms and conditions of the Permits.

(o) Environmental Matters.

(1) As used in this Agreement, the following terms shall have the following meanings:

(i) "Clean-up" shall mean removal and/or remediation of, or other response to (including, without limitation, testing, monitoring, sampling or investigating of any kind) any Release of Hazardous Materials or Contamination, to the satisfaction of all applicable governmental agencies, in compliance with Environmental Laws and in compliance with good commercial practice.

(ii) "Contamination" shall mean the presence of, or Release on, under, from or to the Real Property of any Hazardous Material, except the routine storage and use of Hazardous Materials from time to time in the ordinary course of business, in compliance with Environmental Laws and in compliance with good commercial practice.

(iii) "EPA" shall mean the Environmental Protection Agency.

(iv) "Environmental Document" shall mean any document, correspondence, pleading, report, assessment, analytical result, governmental notice, license, permit or approval or other record concerning a Hazardous Material, compliance with Environmental Law, a Regulatory Action or Third Party Environmental Claim or other environmental subject.

(v) "Environmental Law(s)" shall mean any and all federal, state and local laws, statutes, codes, ordinances, regulations, rules, consent decrees, judicial orders, administrative orders or other requirements relating to the environment or to human health or safety associated with the environment, all as amended or modified from time to time. Environmental Laws shall include, but are not limited to, the following statutes and all rules and regulations relating thereto, all as amended or modified from time to time:

(A) The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), as amended by the Superfund Amendments and Reauthorization Act of 1986 ("SARA") 42 U.S.C.Section 9601-9675; the Resource Conservation and Recovery Act of 1976 ("RCRA") 42 U.S.C.Section 6901-6991; the Clean Water Act 33 U.S.C.Section 1321 et seq; the Clean Air Act 42 U.S.C. Section 7401 et seq; the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA") 7 U.S.C.Section 136 et seq; the Toxic Substances Control Act ("TSCA") 15 U.S.C. Section 2601-2671; the Hazardous Materials Transportation Act; and the Occupational Safety and Health Act of 1970, and

(B) All Michigan statutes and regulations relating to the environment or to human health or safety associated with the environment.

(vi) "Hazardous Material(s)" shall mean (A) any substance, the presence of which requires investigation or remediation under any Environmental Law or under common law; (B) any toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or other hazardous substance which is regulated by any Environmental Law; (C) any substance, the presence of which causes or threatens to cause a nuisance or trespass upon the Real Property or to adjacent properties or

poses or threatens to pose a hazard to the health or safety of persons on or about the Real Property or properties adjacent to the Real Property; and (D) formaldehyde, urea-formaldehyde, polychlorinated biphenyls, asbestos or asbestos-containing materials, radon, petroleum and petroleum related products.

(vii) "Regulatory Action(s)" shall mean any claim, demand, action or proceeding brought or instigated by any governmental agency in connection with any Environmental Law (including, without limitation, civil, criminal and/or administrative proceedings), whether or not seeking costs, damages, penalties or expenses.

(viii) "Release" shall mean the spilling, leaking, disposing, discharging, emitting, depositing, injecting, leaching, escaping, or any other release or threatened release, however defined, and whether intentional or unintentional, of any Hazardous Material.

(ix) "Third Party Environmental Claim(s)" shall mean any claim, demand, suit, proceeding, cause of action, penalty, cost, injunction or demand for payment or compensation, asserted by any Person or entity, whether or not involving any injury or threatened injury to human health, the environment or natural resources, based on any Release or threatened Release of Hazardous Materials or Contamination, or based on any action in negligence, trespass, strict liability, nuisance, toxic tort or other Environmental Law or common law.

(2) To the best of Seller's knowledge, the Seller, Compression Business and the Real Property are currently in compliance in all material respects with all applicable Environmental Laws. No notice of violation or any alleged violation has been issued by any governmental entity and there are no pending investigations of which Seller has been notified involving the Seller, Compression Business or the Real Property.

(3) To the best of Seller's knowledge, Seller and the Compression Business have (i) obtained and maintained in full force and effect, or applied for, all environmental permits, licenses, certificates of compliance, approvals, renewals and other authorizations necessary to conduct the activities and business of the Seller, as currently conducted, and to own or operate the Real Property (collectively the "Environmental Permits"), (ii) conducted their activities and business in compliance with all terms and conditions of any Environmental Permits, and (iii) have filed all reports and notifications required to be filed under applicable Environmental Laws. The Seller has no reason to believe that permits applied for the operation of the Seller and the Compression Business will not be granted or extended in the ordinary course or that any grant or extension would cause the Seller to limit future operations in a manner that would have a material adverse effect on the business of the Seller.

(4) No Third Party Environmental Claims or Regulatory Actions have been asserted or assessed against the Seller, the Compression Business or the Real Property and, to the best of the Seller's knowledge, no Third Party Environmental Claims or Regulatory Actions are pending or threatened arising out of or due to, or allegedly arising out of or due to, (i) the Release on, under or from the Real Property of any Hazardous Materials; (ii) any Contamination of the Real Property, including without limitation, the presence of any Hazardous Material which has come to be located on or under the Real Property from another location; (iii) any violation or alleged violation of any Environmental Law with respect to the Real Property or the activities of the Seller or the Compression Business; (iv) any injury to human health or safety or to the environment by reason of the past or present condition of, or past or present activities on or under the Real Property; or (v) the generation, manufacture, storage, treatment, handling, transportation or other use, however defined, of any Hazardous Material by or for the Seller or the Compression Business on or off the Real Property.

(5) To the best of Seller's knowledge, neither Seller nor any other Person has caused any Release, threatened Release, or disposal of any Hazardous Material in any material quantity on, in, at, under, or from the Real Property, and the Real Property is not adversely affected by any Release, threatened Release, or disposal of a Hazardous Material originating or emanating from any other property, except any of the foregoing permitted by, and made in accordance with, applicable Environmental Laws.

(6) To the best of Seller's knowledge, Seller's files made available to Buyer for examination prior to Closing contain complete copies of any and all Environmental Documents of which Seller is aware.

(7) To the best of Seller's knowledge, neither the Seller or the Compression Business have transported or arranged for the transportation for storage, treatment or disposal of any Hazardous Materials to any location which is: (i) listed on the EPA's National Priorities List ("NPL") of Hazardous Waste Sites; (ii) listed on the Comprehensive Environmental Response, Compensation, Liability Information System ("CERCLIS") or on any similar state list; or (iii) the subject of any Regulatory Action which may lead to claims against the Seller for damages to natural resources, personal injury, Clean-up costs or Clean-up work, including, but not limited to, claims under CERCLA.

(8) To the best of Seller's knowledge, none of the Real Property is listed or nominated for inclusion on the NPL or any other list, schedule, log, inventory or record, however defined, maintained by any federal, state or local governmental agency with respect to sites from which there is or has been a Release or threatened Release of any Hazardous Material or any Contamination. No part of the Real Property was ever used by Seller, nor is it now being used by Seller, or to the best of Seller's knowledge, by any other person, as a (i) storage, treatment or disposal facility for hazardous waste materials which requires a permit under RCRA or any other Environmental Laws; (ii) solid waste dump or

landfill; (iii) mine; or (iv) gasoline service station. Except as disclosed on Schedule 9(o)(8), there are no underground storage tanks on the Real Property.

(9) To the best of Seller's knowledge, (i) Seller and the Compression Business have no material liability for response of corrective action, natural resource damage or other harm pursuant to CERCLA, RCRA or any comparable state law; (ii) Seller and the Compression Business are not subject to and Seller has received no notice of any Third Party Environmental Claim involving the Seller or the Compression Business; and (iii) there are no conditions or occurrences at the Real Property which could reasonably be anticipated to form the basis for a Third Party Environmental Claim against the Seller or the Compression Business.

(10) To the best of Seller's knowledge, the Real Property is not subject to any imminent restriction on the ownership, occupancy, use or transferability of the Real Property in connection with any Environmental Law.

(11) To the best of Seller's knowledge, there are no liens against the Real Property arising under any Environmental Law, or based upon a Regulatory Action or Third Party Environmental Claim.

(12) To the best of Seller's knowledge, no material expenditure will be required in order for the Buyer to comply with Environmental Laws in effect on the Closing Date in connection with the operation or continued operation of the activities of the Seller or the Compression Business.

(p) Disclosure. To the best of Seller's knowledge, this Agreement, the exhibits hereto, the documents delivered by Seller at Closing, the Schedules attached hereto, and the Financial Statements, taken together as a whole, do not (i) contain any untrue statement of a material fact regarding the Acquired Assets or the Compression Business or any of the other matters dealt with in this Section 9 relating to the Acquired Assets or the Compression Business or the transactions contemplated by this Agreement, or (ii) omit any material fact with the intention of making the statements contained herein or therein, in light of the circumstances in which they were made, misleading.

(q) Limitation and Disclaimer of Seller's Representations and Warranties. THE EXPRESS REPRESENTATIONS AND WARRANTIES OF SELLER CONTAINED IN THIS AGREEMENT ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE. SELLER DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE THAT MIGHT APPLY TO THE ACQUIRED ASSETS AND BUYER HEREBY AGREES TO ACCEPT THE TANGIBLE FIXED ASSETS, BUILDINGS AND COMPRESSOR FLEET ASSETS IN AN "AS IS" CONDITION WITH ALL FAULTS.

(r) Seller's Knowledge. As used in this Agreement, the term "Seller's knowledge" and the term "knowledge of Seller" and any similar phrase referring to Seller's knowledge mean the actual knowledge on the Closing Date of Seller's officers and directors.

10. Buyer's Representations, Warranties and Disclaimer. Buyer represents and warrants to Seller that:

(a) Existence. Buyer is a corporation, duly organized and validly existing and in good standing under the laws of the State of Colorado. Buyer is duly qualified as a foreign corporation, licensed and in good standing in the State of Michigan and in each other jurisdiction where qualification or licensing is required, or after the Closing will be required, by the nature of its business or the character and location of its property, business or customers and in which the failure to so qualify or be licensed, as the case may be, in the aggregate, could have a material adverse effect on the business, financial position, results of operations, properties or prospects of Buyer after the Closing Date.

(b) Power. Buyer has the requisite power and authority to enter into and perform this Agreement, the Collateral Documents (as hereinafter defined) and the other agreements and documents to be entered into as of the Closing Date (collectively, the "Transaction Documents") and the transactions contemplated hereby and thereby. As used in this Agreement, the term "Collateral Documents" shall mean the Mortgage, the Security Agreement, the financing statements and all other documents to be entered into in order to evidence or secure the Deferred Purchase Obligations, as the same may be amended or supplemented from time to time. The execution, delivery and performance of this Agreement by Buyer, and the transactions contemplated hereby, will not violate any provision of Buyer's certificate, articles of incorporation, or organization, as the case may be, bylaws or other governing documents, and to the best knowledge and belief of Buyer, will not (i) conflict with, result in a breach of, constitute a default (or an event that with a lapse of time or notice, or both, would constitute a default) under any agreement or instrument to which Buyer is a party or by which Buyer is bound, (ii) violate any judgment, order, ruling or decree applicable to Buyer and entered or delivered in a proceeding in which Buyer was or is a named party, or (iii) violate any applicable law, rule or regulation applicable to Buyer.

(c) Authorization. The execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite action on the part of Buyer. This Agreement has been duly executed and delivered on behalf of Buyer, and at the closing all documents and instruments required hereunder to be executed and delivered by Buyer shall be duly executed and delivered. This Agreement and such documents and instruments shall constitute legal, valid and binding obligations of Buyer, enforceable in accordance with their terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium and other rights affecting creditors' rights generally from time to time in effect and to general equitable principles.

(d) Binding Obligations. This Agreement constitutes a valid and binding agreement of Buyer, and the other Transaction Documents, when executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of Buyer, in each case enforceable against Buyer in accordance with its terms, except as (i) the enforceability hereof and thereof may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and (ii) rights of acceleration and the availability of equitable remedies may be limited by equitable principles of general applicability.

(e) Governmental Filings. All actions by or in respect of, and all filing with, any governmental authority required in connection with the execution, delivery and performance of this Agreement and the other Transaction Documents, or necessary for the validity or enforceability thereof or for the protection or perfection of the rights and interests of Seller thereunder, will, prior to the date of delivery thereof, have been duly taken or made, as the case may be, and will at all times thereafter remain in full force and effect.

(f) Brokers. Buyer has not incurred any obligation or liability, contingent or otherwise, for brokers or finders fees in respect to the matters provided for in this Agreement, which will be the responsibility of Seller, and any such obligation, or liability incurred by Buyer that might exist shall be the sole obligation of Buyer.

(g) Due Diligence. Buyer represents, warrants and covenants that it has performed, prior to Buyer's execution of this Agreement, sufficient review and due diligence, including review of file data and inspections, to evaluate the Acquired Assets to Buyer's complete satisfaction as a prudent and knowledgeable Buyer.

(h) Sophisticated Buyer. Buyer is a sophisticated buyer engaged in the gas compression business and knowledgeable and experienced in the evaluation and acquisition of the Acquired Assets transferred hereby and in the Compression Business relating thereto. Buyer has evaluated the benefits and risks associated with the Acquired Assets to be purchased from Seller pursuant to this Agreement and determined whether to acquire the Acquired Assets pursuant to the terms hereof based solely on Buyer's knowledge and experience, and not upon any opinion or predictions by Seller or any entity controlling or under common control with Seller.

(i) Solicitation. At no time was Buyer presented with or solicited by or through any public promotion or other form of advertising.

(j) Limitation and Disclaimer of Buyer's Representations and Warranties. THE EXPRESS REPRESENTATIONS AND WARRANTIES OF BUYER CONTAINED IN THIS AGREEMENT ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE.

11. Consents and Approvals. At the request of Buyer, Seller shall attempt to obtain the consent of the customers (the "Customers") identified on Schedule 11 to the assignment by

Seller to Buyer of the compressor leases and service contracts that such Customers have with Seller. The receipt of written consents to the assignment from the Customers shall not constitute a condition of Closing and the failure to receive such consents shall not cause an adjustment to the Purchase Price. If such consent(s) are not received before the Closing Date from a Customer or Customers, then the affected leases and service contracts shall be excluded from this Agreement and the Parties shall execute such other agreements (e.g. subcontracts or assignments of rental proceeds) that, to the extent possible, have the same financial impact as would assignments of such leases and service contracts.

12. Completion of Work in Process. Included in Seller's work in process are Compressor Units identified in Schedule 12 that it is fabricating for its own use. These compressor units are included among the Acquired Assets. Seller shall attempt to complete such compressor units, prior to the Closing Date and at its sole expense. If such compressor units are not completed prior to the Closing Date, Buyer shall complete the fabrication of such units for the account of Seller on a time and material basis equal to the actual costs incurred by Buyer, including a charge to cover administrative overhead incurred by Buyer equal to 3% until Closing and 8% after Closing of Buyer's actual costs. Buyer shall complete the fabrication of such units with all reasonable diligence for delivery to Seller for lease or purchase as soon as reasonably possible after the Closing Date.

13. Conditions of Buyer to Closing. The obligations of Buyer to consummate the transactions contemplated by this Agreement are subject, at the option of Buyer, to satisfaction on or prior to the Closing of each of the following precedent conditions:

(a) Representations and Warranties. The representations and warranties of Seller set forth herein shall be true and correct in all materials respects at and as of the Closing Date as though then made.

(b) Performance. Seller shall have performed and observed, in all material respects, all covenants and agreements, including obtaining of the written consents as required by Section 11, to be performed or observed by it under this Agreement prior to or on the date of Closing.

(c) Pending Litigation. No suit, action or other proceeding by a third party (including any governmental body) seeking to restrain, enjoin or otherwise prohibit the consummation of the transactions contemplated by this Agreement or that would have a Material Adverse Effect on the Compression Business shall be pending before any governmental body or court of law.

(d) Delivery of Documents. Seller shall have delivered to Buyer duly executed counterparts of the documents attached hereto as Exhibits 3(b)(1), 3(b)(2) and 3(b)(3), together with the following documents:

(1) Both Compressor Maintenance Agreements attached hereto as Exhibit 13(d)(1).

(2) The Commitment Agreement attached hereto as Exhibit 13(d)(2).

(3) The Standard Gas Compressor Equipment Master Rental and Servicing Agreement attached hereto as Exhibit 13(d)(3).

(4) Certificate of Seller's Vice President substantially in the form set forth in Exhibit 13(d)(4) dated the Closing date, stating that the conditions precedent set forth in this Section 13 have been satisfied.

(e) Title Insurance. Within not less than 2 days before the Closing Date, the Seller shall, at Seller's expense, obtain and deliver to Buyer a commitment issued in an amount of $940,000 by a reputable title insurance company and dated after the date hereof for the issuance of an ALTA owner's policy of title insurance covering the Real Property and indicating that Seller has good and marketable title to said lands, subject only to standard and general exceptions of the title insurance company that are deleted only on submission of a survey. After the Closing and the recording of the deed, Seller shall cause the title insurance company to deliver to Buyer, at Seller's expense, the title policy issued pursuant to the commitment.

(f) Access and Inspection. Seller will have allowed Buyer and Buyer's agents, access to the Real Property without charge and at all reasonable times for the purpose of Buyer's investigation and testing the same. Seller shall make available to Buyer and Buyer's agents without charge all plans and specifications, records; inventories, permits and correspondence in Seller's possession relating to Hazardous Materials affecting the Real Property; and the right to interview employees of. Seller who may have knowledge of such matters. Buyer shall pay all costs and expenses of such investigation and testing, shall restore the Real Property, and shall hold Seller and the Real Property harmless from all costs and liabilities relating to Buyer's activities. Buyer shall have been satisfied with the results of all tests and investigations performed by it or on its behalf.

(g) Opinion Letter. Buyer shall receive the favorable opinion of Mika, Meyers, Beckett & Jones, counsel for Seller, dated the Closing Date, addressed to Buyer and satisfactory to Buyer's counsel in form and substance, to the effect that Seller is a corporation duly organized and existing in good standing under the laws of the State of Michigan; that the execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite action on the part of Seller; that this Agreement and all documents and instruments required hereunder to be executed and delivered at the Closing by Seller have been duly executed and delivered on behalf of Seller; and that this Agreement and such documents and instruments constitute legal, valid and binding obligations of Seller, enforceable in accordance with their terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and to general equitable principles.

(h) No Material Adverse Changes. Buyer shall not have been informed that in the reasonable opinion of its advisers there is, at any time prior to the Closing Date, any material adverse change in the condition (financial or otherwise), affairs, business, assets or prospects of the Compression Business or the Acquired Assets. If Buyer is so notified,

Buyer shall have the option not to close. However, Buyer recognizes that the business of Seller is fluid and not static, and that Buyer and Seller must work together to adjust the inventory of compressors and related equipment up to and including the Closing Date.

14. Conditions of Seller to Closing. The obligations of Seller to consummate the transactions contemplated by this Agreement are subject, at the option of Seller, to satisfaction on or prior to Closing of each of the following precedent conditions.

(a) Performance. Buyer shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by it under this Agreement prior to or on the date of Closing.

(b) Pending Litigation. No suit, action or other proceeding by a third party (including any governmental body) seeking to restrain, enjoin or otherwise prohibit the consummation of the transactions contemplated by this Agreement shall be pending before any governmental body or court of law.

(c) Opinion Letter. Seller shall receive the favorable opinion of Dorsey & Whitney, LLP, counsel for Buyer, dated the Closing Date, addressed to Buyer and satisfactory to Buyer's counsel in form and substance, to the effect that Buyer is a corporation duly organized and existing in good standing under the laws of the State of Colorado qualified to do business in the State of Michigan; that the execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite action on the part of Buyer; that this Agreement and all documents and instruments required hereunder to be executed and delivered at the Closing by Buyer have been duly executed and delivered on behalf of Buyer; and that this Agreement and such documents and instruments constitute legal, valid and binding obligations of Buyer, enforceable in accordance with their terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and to general equitable principles.

15. Restrictive Covenants.

(a) Non-Competition. Seller shall not, for a period of two years from the Effective Date, either directly or indirectly, engage in the business of manufacturing or fabricating gas compressors, or in the business of selling, leasing and maintaining gas compressors anywhere within the areas within the United States where Seller has heretofore sold or leased natural gas compressors; provided, however, that this covenant (i) shall not prohibit Seller from selling or leasing compressors fabricated for it by Buyer pursuant to the Commitment Agreement should Seller have excess compression capacity and not have sufficient need for the compression capacity that it is required thereby to buy or lease from Buyer, (ii) shall not prohibit Seller from selling or leasing any compressor that it currently owns, and (iii) shall not apply to Seller after the occurrence of an Event of Default (as hereinafter defined).

(b) Name Change. Seller shall change its name after the Closing Date to a name, which will not include the names "Great Lakes", "Compression" or "Great Lakes Compression" either alone or in any combination, or any variation thereof, and Seller shall not reassume any name including the names "Great Lakes", "Compression" and "Great Lakes Compression" either alone or in any combination, or any variation thereof, at any time hereafter; provided, however, Seller may use a name that includes the word "Great" or the word "Lakes" provided that both words are not used in that name.

(c) Enforceability. The Parties believe that the restrictive covenants contained in this paragraph 15 are reasonable. However, if any court of competent jurisdiction subsequently holds these restrictive covenants to be unenforceable or unreasonable, whether as to scope, territory or period of time specified herein, said scope, territory or period of time shall be deemed to be that declared or determined to be reasonable by that court in light of the Parties intent as evidenced in such restriction.

(d) Injunctive Relief. Seller recognizes that Buyer will suffer irreparable harm if the terms of this Section 15 are violated, and that it will be difficult, if not impossible, to compute Buyer's actual damages resulting from such unauthorized competition. The Parties, therefore, agree that any party may apply to a court of competent jurisdiction to enjoin any threatened or actual breach of the covenants contained herein.

16. Employment of Seller's Personnel. Buyer presently intends to retain substantially all of the salaried and hourly employees that are employed in the Compression Business and expects to offer to the employees listed on Schedule 16 continued employment on terms and conditions generally comparable to the terms and conditions upon which such employees were employed by Seller before the Closing Date. Seller shall not attempt to discourage such employees from accepting Buyer's offer of employment on those terms. However, a review will be made of the employees that are listed on Schedule 16 and the scope of their responsibilities, and additional consideration will be given as to employees to be retained after the acquisition in light of the staffing needs of Buyer and Buyer's conclusions regarding the qualifications of each employee. Neither this Agreement nor the negotiations leading to this Agreement, nor any other actions by Buyer and Seller, other than the execution and delivery of a written employment agreement by Buyer, will create in any of such employees any rights, explicit or implied, to continued employment. Seller, or its Affiliates, shall retain all liability for payment of vacation pay accrued, and disability pay and other claims incurred, before the Closing Date by the employees of the Compression Business whose employment has been terminated by Seller, or its Affiliates.

17. Covenants of Buyer after the Closing. As of and after the Closing and for so long as any of the Deferred Purchase Obligations remain outstanding, Buyer shall comply with and perform the following covenants, terms and conditions:

(a) Definitions. As used in this Agreement, the following terms shall have the meanings set forth below:

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under direct or indirect common control with such Person. For purposes of this definition, the term "control" when used with respect to a Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, partnership interests, by contract or otherwise.

"Approved Auditor" shall mean independent public accountants reasonably acceptable to Seller. For purposes of the foregoing, HEIN + ASSOCIATES, LLP shall be deemed to be acceptable to Seller.

"Collateral" means all of the property which is subject or is to be subject to the Liens granted by the Collateral Documents.

"Consolidated Subsidiary" means at any date any Subsidiary or other entity the accounts of which would be consolidated with those of the Guarantor in its consolidated financial statements of such date.

"Debt" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable arising in the ordinary course of business), (iv) all obligations of such Person as lessee under Capital Leases, (v) all obligations of such Person to purchase securities or other property which arise out of or in connection with the sale of the same or substantially similar securities or property, (vi) all non-contingent obligations of such Person to reimburse any bank or other person in respect of amounts paid under a letter of credit or similar instrument, (vii) all obligations of others secured by a Lien on any asset of such Person, whether or not such obligation is assumed by such Person and (viii) all obligations of others guaranteed by such Person. For purposes of the foregoing, "Capital Lease" means a lease that should be capitalized on the balance sheet of the lessee prepared in accordance with GAAP.

"Default" means any event or circumstance that, with the lapse of time, the giving of notice or both, would constitute an Event of Default.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Event of Default" has the meaning set forth in Section 18.

"GAAP" means generally accepted accounting principles in the United States.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. For

the purposes of this Agreement, Buyer shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, Capital Lease or other title retention agreement relating to such asset.

"Person" means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"Subsidiary" means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions, or otherwise having the power to direct the management of such corporation or entity, are at the time directly or indirectly owned by the Guarantor.

(b) Information. Buyer shall deliver or cause to be delivered to Seller the following:

(1) as soon as available and in any event within 120 days after the end of each fiscal year of Buyer, a balance sheet of Buyer as of the end of such fiscal year and the related statements of income and expenses for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and accompanied by an opinion thereon by an Approved Auditor, which opinion shall state that such financial statements present fairly the financial position of Buyer as of the date of such financial statements and the results of its operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis (except for changes in the application of which such accountants concur) and shall not contain any "going concern" or like qualification or exception or qualifications arising out of the scope of the audit;

(2) as soon as available and in any event within 98 days after the end of each fiscal year of Buyer, a supplemental schedule of all of Buyer's Compressor Units (whether or not leased) as of the end of such fiscal year, as certified by an Approved Auditor;

(3) as soon as available and in any event within 45 days after the end of each of the first three quarters of each fiscal year of Buyer, a balance sheet of Buyer and the related statements of income and expenses for such quarter and for the portion of Buyer's fiscal year ended at the end of such quarter, setting forth in each case in comparative form for the corresponding quarter and the corresponding portion of Buyer's previous fiscal year, all certified (subject to normal year-end audit adjustments) as complete and correct by the chief financial officer or chief accounting officer of Buyer;

(4) simultaneously with the delivery of each set of financial statements referred to in clauses (1), (2) and (3) above, a certificate of the chief financial officer or chief accounting officer of Buyer, (A) setting forth in reasonable detail the calculations required to establish whether Buyer was in compliance with the requirements of this Agreement, including, without limitation, the requirement to pay a portion of the Deferred Purchase as an item of the Acquired Assets is sold, on the date of such financial statements, (B) stating whether there exists on the date of such certificate any Event of Default or any event that, with the lapse of time, the giving of notice, or both, would constitute an Event of Default (a "Default") and, if any Event of Default or any Default then exists, setting forth the details thereof and the action which Buyer is taking or proposes to take with respect thereto and (C) stating whether, since the date of the most recent previous delivery of financial statements pursuant to clause (1), (2) or (3) of this Section, there has been any material adverse change in the business, financial position, results of operations or prospects of Buyer, and, if so, the nature of such material adverse change;

(5) simultaneously with the delivery of each set of financial statements referred to in clause (1) and (2) above, a statement of the firm of independent public accountants that reported on such statements (A) stating that their audit examination has included a review of this Agreement as it relates to financial or accounting matters, (B) whether anything has come to their attention to cause them to believe that there existed on the date of such statements any Default or Event of Default, and (C) confirming the calculations set forth in the officer's certificate delivered simultaneously therewith pursuant to clause (4) above;

(6) as soon as reasonably practicable after obtaining knowledge of the commencement of, or of a material threat of the commencement of, an action, suit or proceeding against Buyer which could materially adversely affect the business, properties, financial position, results of operations or prospects of Buyer or which in any manner questions the validity of this Agreement, any Collateral Document or any of the other transactions contemplated hereby or thereby, the nature of such pending or threatened action, suit or proceeding and such additional information as may be reasonably requested by Seller; and

(7) from time to time such additional information regarding the financial position, results of operations or business of Buyer as Seller may reasonably request.

Seller shall maintain the confidentiality of all such information disclosed thereby except as Seller may deemed necessary or appropriate in enforcing its rights under this Agreement, the Collateral Documents and all other agreements and documents evidencing, guaranteeing, securing or otherwise related to the Deferred Purchase Obligations (collectively and as may be amended or supplemented from time to time, the "Purchase Money Documents") and except as Seller may be required to disclose by law, including any subpoena or court order.

(c) Payment of Obligations. Buyer will pay and discharge, as the same shall become due and payable, (i) all its obligations and liabilities, including all claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like persons which, in any such case, if unpaid, might by law give rise to a Lien upon any of its property or assets, and (ii) all lawful Taxes, assessments and charges or levies made upon it or its property or assets, by any governmental authority, except where any of the items in clause (i) or (ii) above may be diligently contested in good faith by appropriate proceedings, and Buyer shall have set aside on its books, if required under GAAP, appropriate reserves for the accrual of any such items.

(d) Maintenance of Property; Insurance. Buyer will keep the Collateral in such condition and will maintain in effect such insurance on the Collateral as is required by the terms of the Collateral Documents.

(e) Conduct of Business and Maintenance of Existence. Buyer will continue to engage in business of the same general type as now conducted by Seller with respect to the Acquired Assets and will operate the Compression Business in at least as sound and prudent manner as it has been heretofore operated by Seller. Buyer will preserve, renew and keep in full force and effect its corporate existence and its rights, privileges and franchises necessary or desirable in the normal conduct of business.

(f) Sale of Assets. Buyer may sell any item included in the Acquired Assets if, and only if, Buyer pays to Seller the sum due with respect to each item in accordance with Section 4(b)(3) of this Agreement; provided however, that Buyer may not sell any of the Real Property included in the Acquired Assets or, except as permitted in the Security Agreement, any machinery or equipment used in the operation of Buyer's business at such Real Property. As to all other Collateral, Buyer will not sell, transfer or assign any of its assets without the prior approval of Seller, other than inventory and assets sold in the ordinary course of business or as otherwise expressly provided in the Collateral Documents.

(g) Compliance with Laws. Buyer will comply with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities [(including, without limitation, ERISA and the rules and regulations thereunder)] except where the necessity of compliance therewith is contested in good faith by appropriate proceedings.

(h) Accounting; Inspection of Property, Books and Records. Buyer will keep proper books of record and account in which full, true and correct entries in conformity with GAAP shall be made of all dealings and transactions in relation to its business and activities, will maintain its fiscal reporting periods on the present basis and will permit representatives of Seller to visit and inspect any of its properties, to examine and make abstracts from any of its books and records and to discuss its affairs, finances and accounts with its officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired. Seller shall maintain the confidentiality of all such books and records and information disclosed thereby except as Seller may deemed necessary or appropriate in enforcing its rights under the Purchase

Money Documents and except as Seller may be required to disclose by law, including any subpoena or court order.

(i) Debt. Buyer will not incur or at any time be liable with respect to any Debt except (i) Debt outstanding under this Agreement and (ii) Debt secured by a Lien permitted under Section 17(j) of this Agreement.

(j) Restriction on Liens. Buyer will not at any time create, assume or suffer to exist any Lien on any property or asset now owned or hereafter acquired by it or assign or subordinate any present or future right to receive assets except:

(1) any Liens created by the Collateral Documents;

(2) any purchase money security interest on any capital asset of Buyer if such purchase money security interest attaches to such capital asset concurrently with the acquisition thereof; provided, that the aggregate amount of Debt secured by all such purchase money security interests does not exceed $100,000 in the aggregate at any one time outstanding and provided, that no such purchase money security interest shall extend to or cover any of the Acquired Assets or any other property or asset of Buyer other than the capital asset so purchased;

(3) Liens securing Taxes, assessments or governmental charges or levies or the claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like persons; provided (A) with respect to Liens securing state and local Taxes, such Taxes are not yet payable, (B) with respect to Liens securing claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and the like, such Liens are unfiled and no other action has been taken to enforce the same, or such claims or demands are paid within thirty (30) days after such Liens are filed, or (C) with respect to Taxes, assessments or governmental charges or levies or claims or demands secured by such Liens, payment of which is not at the time required by Section 17(b);

(4) Liens not securing Debt which are incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance, social security and other like laws;

(5) any Lien arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;

(6) zoning restrictions, easements, licenses, reservations, covenants, conditions, waivers, restrictions on the use of property or other minor encumbrances or irregularities of title which affected the Real Property on the Closing Date, or which do not materially impair the use of any property used in the operation or business of Buyer or the value of such property for the purpose of such business.

(k) Consolidations, Mergers and Sales of Assets. Buyer will not (i) consolidate or merge with or into any other Person or (ii) sell, lease or otherwise transfer all or, except in the ordinary course of business, any substantial part of its assets to any other Person.

(l) Transactions with Affiliates. Buyer will not directly or indirectly, pay any funds to or for the account of, make any investment in, engage in any transaction with or effect any transaction in connection with any joint enterprise or other joint arrangement with, any Affiliate of Buyer, except that Buyer may make payment or provide compensation (including without limitation the establishment of customary employee benefit plans) for personal services rendered by employees and other Persons on terms fair and reasonable in light of the circumstances under which such services were or are to be rendered. Nothing in this Section 17(1) shall prohibit Buyer from making sales to or purchases from any Affiliate and, in connection therewith, extending credit or making payments, or from making payments for services rendered by any Affiliate, if such sales or purchases are made or such services are rendered in the ordinary course of business and on terms and conditions at least as favorable to Buyer as the terms and conditions which would apply in a similar transaction with a Person not an Affiliate, or prohibit Buyer from participating in, or effecting any transaction in connection with, any joint enterprise or other joint arrangement with any Affiliate if Buyer participates in the ordinary course of its business and on a basis no less advantageous than on the basis on which such Affiliate participates.

(m) Restricted Payments. Buyer will not (i) declare or pay any dividend or other distribution on any shares of Buyer's capital stock, (ii) make any payment on account of the purchase, redemption, retirement or acquisition of (A) any shares of Buyer's capital stock (except shares acquired upon the conversion thereof into other shares of its capital stock) or (B) any option, warrant or other right to acquire shares of Buyer's capital stock, (iii) make any payments or loans to directors, officers or shareholders of Buyer other than reasonable salaries and benefits to officers employed on a full time basis by Buyer, or (iv) return or distribute any capital to shareholders of Buyer.

(n) Investments. Buyer will not make or acquire any investment in any Person (whether by share purchase, capital contribution, loan, time deposit or otherwise) other than (i) in direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any agency thereof, (ii) in commercial paper rated in the highest grade by a nationally recognized credit rating agency, (iii) in time deposits with, including certificates of deposit issued by Western National Bank or any office located in the United States of any bank or trust company which is organized under the laws of the United States or any state thereof and has capital, surplus and undivided profits aggregating at least $200,000,000, provided in each case that such investment matures within one year from the date of acquisition thereof by Buyer and (iv) loans and advances to employees for travel in the ordinary course of business and in an amount consistent with past practice.

(o) Transactions with Other Persons. Buyer shall not enter into any agreement with any Person whereby any of them shall agree to any restriction on Buyer's right to amend or waive any of the provisions of this Agreement or the Collateral Documents.

(p) Capital Expenditures. Buyer will not directly (by the way of the acquisition of securities of a Person or otherwise) make or commit to make any expenditures in respect of the purchase or other acquisition of fixed or capital assets (excluding normal replacements and maintenance which are properly charged to current operations), except for expenditures in the ordinary course of business.

(q) Independence of Covenants. All covenants contained herein shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that such action or condition would be permitted by an exception to, or otherwise be within the limitations of another covenant shall not avoid the occurrence of a default if such action is taken or condition exists.

18. Events of Default by Buyer.

(a) The occurrence on or after the Closing of any one or more of the following events shall constitute an "Event of Default" under this Agreement:

(1) Buyer shall fail to pay when due any portion of the Deferred Purchase Price or interest on the Deferred Purchase Price, and such failure shall continue for five (5) days after the due date;

(2) Buyer shall fail to pay any other sum due under this Agreement or the Collateral Documents (other than as described in clause (1) above), and such failure continues for ten (10) days after notice by Seller to Buyer;

(3) Buyer shall fail to observe or perform any covenant contained in Section 17(f), (i), (j), (k), (1), (m), (n), (o) or (p) or the Guarantor shall fail to observe or perform any covenant contained in Section 11(e), (h), (i), (j), (k), (1), (m), (n) or (p) of the Guaranty;

(4) Buyer shall fail to observe or perform any covenant or agreement contained in this Agreement or in the other Purchase Money Documents (other than those covered by clauses (1), (2) or (3) above), or Guarantor or any Subsidiary shall fail to observe or perform any covenant or agreement contained in the Guaranty or any of the other Purchase Money Documents, in either case for 30 days after written notice thereof has been given to Buyer by Seller;

(5) any representation, warranty, certification or statement made by Buyer in this Agreement or any other Purchase Money Document to which it is a party or by the Guarantor or any Subsidiary in the Guaranty or any other Purchase Money Document, or in any certificate, financial statement or other document delivered pursuant hereto or thereto, shall prove to have been incorrect in any material respect when made;

(6) Buyer, and Subsidiary, or Guarantor shall fail to make any payment in respect of any Debt when due or within any applicable grace period;

(7) any event or condition shall occur which results in the acceleration of the maturity of any Debt of Buyer, any Subsidiary or Guarantor or enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Debt or any Person acting on such holder's behalf to accelerate the maturity thereof;

(8) Buyer, any Subsidiary or Guarantor shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing;

(9) an involuntary case or other proceeding shall be commenced against Buyer, any Subsidiary or Guarantor seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against Buyer, any Subsidiary or Guarantor under the federal bankruptcy laws as now or hereafter in effect;

(10) one or more judgments or orders for the payment of money in excess of $100,000 shall be rendered against Buyer, any Subsidiary or Guarantor and such judgment or order shall continue unsatisfied for a period of 21 days during which execution shall not be effectively stayed;

(11) (A) any Collateral Document shall cease for any reason to be in full force and effect or shall cease to be effective to grant a perfected security interest in the Collateral with the priority stated to be created thereby or shall cease to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by Buyer, any Subsidiary or Guarantor, or Buyer, any Subsidiary or Guarantor shall deny that it has any further liability or obligation under a Purchase Money Document to which it is a party, or (B) any creditor of Buyer, any Subsidiary or Guarantor shall obtain possession of any of the Collateral by any means, including, without limitation, levy, distraint, replevin or self-help, or any such creditor shall establish or obtain any right in the Collateral which is equal to or senior to the security interests of Buyer in such Collateral;

(12) the Guaranty shall at any time and for any reason cease to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by Guarantor, or Guarantor shall deny that it has any further liability or obligation under or shall fail to perform its obligations under the Guaranty;

(13) any event shall occur which, under the terms of any of the Collateral Documents, would entitle Seller to accelerate the maturity of the Deferred Purchase Price;

(14) any substantial (in excess of $25,000) uninsured loss, theft, damage or destruction of the Collateral; or

(15) Seller's good faith determination that a material adverse change in financial condition of Buyer or Guarantor has occurred since the Closing Date.

(b) Seller's Remedies upon Event of Default. Upon the occurrence and continuance of an Event of Default, Seller may, at its option, (i) declare the Deferred Purchase Price to be, and the Deferred Purchase Price and all accrued and unpaid interest thereon shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by Buyer, (ii) realize on any or all of the Collateral pursuant to the Collateral Documents, (iii) demand and collect all sums due under the Guaranty, and (iv) exercise such other rights and remedies as may be available under this Agreement, the other Purchase Money Documents or at law or in equity.

(c) No Waivers. No failure or delay by Seller in exercising any right, power or privilege hereunder or under any of the Purchase Money Documents shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

(d) Expenses. Buyer shall pay (i) all out-of-pocket expenses of Seller, including the reasonable fees and disbursements of special counsel for Seller, in connection with any waiver or consent hereunder or any amendment hereof or any Default hereunder and (ii) if an Event of Default occurs, all out-of-pocket expenses incurred by Seller, including reasonable fees and disbursements of counsel, in connection with such Event of Default and collection and other enforcement proceedings resulting therefrom. Except as provided in paragraph 5(d) of this Agreement, Buyer shall indemnify Seller against any transfer taxes, documentary taxes, assessments or charges made by any governmental authority by reason of the execution and delivery of this Agreement or the Collateral Documents.

(e) Right of Set-Off. Upon the occurrence and during the continuance of any Event of Default, Seller or any of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all

amounts at any time owed to Buyer or its Affiliates and other indebtedness at any time owing by Seller or its Affiliates to or for the credit or the account of Buyer or its Affiliates against any and all of the obligations now or hereafter existing under this Agreement or any other Purchase Money Document for its account, irrespective of whether Seller shall have made any demand hereunder and although such obligation may be unmatured.

19. Further Assurances. After Closing, Seller and Buyer agree to take such further actions and to execute, acknowledge and deliver such further documents that are necessary or useful in carrying out the purposes of this Agreement or of any document delivered pursuant hereto. The Parties shall cooperate at all times after Closing to execute and record correction instruments to correct scrivener's errors in the preparation of the Closing documents.

20. Related Agreements. Buyer and Seller have heretofore entered into that certain Non-Disclosure Agreement dated October 12, 2000, the terms of which are incorporated herein by reference.

21. Dispute Resolution. Except as provided in Section 15(d) of this Agreement, any disagreement between Buyer and Seller hereunder or under the transactions contemplated hereby shall be referred for decision to the Presidents of each party hereto or their designees. In the event that the referred matter is not then resolved within ten (10) days following the referral, and unless this period is extended by mutual agreement, such matter shall be submitted and settled by arbitration in Traverse City, Michigan, pursuant to the then-prevailing rules of the American Arbitration Association. The arbitrators shall consist of one person selected by Buyer, one person selected by Seller and one person selected by the two arbitrators so selected. At least one of the arbitrators shall be a lawyer having at least ten years of experience in the oil and gas service industry. In the event that the arbitrators selected by Buyer and Seller are unable jointly to select a third arbitrator, Buyer and Seller (or the arbitrators selected by them) shall request that the American Arbitration Association in Washington, D.C. designate such third person. The decision of arbitrators pursuant to this Section 21 shall be final and binding upon Buyer and Seller, and judgment upon any such decision may be entered in any court that would ordinarily have jurisdiction over Seller or Buyer, as the case may be, and the subject matter of such arbitration. The fees and expenses of the arbitrators incurred in connection with the review and determination of any disputed matter shall be borne equally between the Seller and the Buyer unless otherwise directed by the arbitrators. Each Party shall be solely responsible for the fees and expenses incurred by it in connection with the arbitration. Notwithstanding anything in this Agreement to the contrary, the dispute resolution procedures of this Section 21 shall not apply to the Deferred Purchase Obligations unless the Parties mutually agree otherwise in writing.

22. Indemnification.

(a) Seller agrees to indemnify in full Buyer and its officers, directors, employees, agents and stockholders (collectively, the "Buyer Indemnified Parties") and hold them harmless against any loss, liability, deficiency, damage, expense or cost (including reasonable legal expenses), whether or not actually incurred or paid prior to the Effective Date (collectively, "Losses"), which Buyer Indemnified Parties may suffer, sustain or become subject to, as a result of (i) any misrepresentation in any of the

representations and warranties of Seller contained in this Agreement or in any exhibits, schedules, certificates or other documents delivered or to be delivered by or on behalf of Seller or Buyer pursuant to the terns of this Agreement or otherwise referenced or incorporated in this Agreement (collectively, the "Related Documents"), (ii) any breach of, or failure to perform, any agreement of Seller contained in this Agreement or any of the Related Documents, (iii) any "Claims" (as defined in Section 22(e)(1) hereof) or threatened Claims against Buyer arising out of the action or inactions of Seller with respect to the Acquired Assets or the Compression Business prior to the Closing, or (iv) Clean-up reasonably required as a result of a Release of Hazardous Materials by Seller on, under or from the Real Property prior to the Closing Date; provided however, Seller shall be entitled at its option, to effectuate the Clean-up caused by the Release using it own tools or by hiring an independent contractor to work under its direction (collectively, "Buyer Losses").

(b) Seller shall be liable to Buyer Indemnified Parties for any Buyer Losses (i) only if Buyer or another Buyer Indemnified Party delivers to Seller written notice, setting forth in reasonable detail the identity, nature and amount of Buyer Losses related to such claim or claims prior to the second anniversary of the Closing Date and (ii) only if the aggregate amount of all Buyer Losses exceeds $25,000 (the "Basket Amount"), in which case Seller shall be obligated to indemnify the Buyer Indemnified Parties only for the excess of the aggregate amount of all such Buyer Losses over the Basket Amount. A Buyer Indemnified Party's failure to provide the detail required by clause (i) in the preceding sentence shall not constitute either breach of this Agreement lay the Buyer Indemnified Party or any basis for Seller to assert that the Buyer Indemnified Party did not comply with the terms of this Section 22 sufficient to cause the Buyer Indemnified Party to have waived its rights under this Section 22 unless Seller demonstrates that its ability to defend against any Claims with respect thereto has been materially adversely affected.

(c) Subject to the limitations of Section 22(d), Buyer agrees to indemnify in full the Seller, and its officers, directors, employees, agents and stockholders (collectively, the "Seller Indemnified Parties") and hold them harmless against any Losses which any of the Seller Indemnified Parties may suffer, sustain or become subject to as a result of (i) any misrepresentation in any of the representations and warranties of Buyer contained in this Agreement or in any of the Related Documents, (ii) any breach of, or failure to perform, any agreement of Buyer contained in this Agreement or any of the Related Documents, or (iii) any Claims or threatened Claims against Seller arising out of the actions or inactions of Buyer with respect to the Assets or the Compression Business after the Closing (collectively, "Seller Losses").

(d) Buyer shall be liable to the Seller Indemnified Parties for any Seller Losses (i) only if Seller or another Seller Indemnified Party delivers to Buyer written notice, setting forth in reasonable detail the identity, nature and amount of Seller Losses related to such claim or claims prior to the second anniversary of the Closing Date, except to the extent that such Losses relate to Claims described in Section 22(c)(iii) above, and (ii) only if the aggregate amount of all Sellers' Losses exceeds the Basket Amount, in which case Buyer shall be obligated to indemnify the Seller Indemnified

Parties only for the excess of the aggregate amount of all such Seller Losses over the Basket Amount. A Seller Indemnified Party's failure to provide the detail required by clause (i) in the preceding sentence shall not constitute either a breach of this Agreement by the Seller Indemnified Party or any basis for Buyer to assert that the Seller Indemnified Party did not comply with the terms of this Section 22 sufficient to cause the Seller Indemnified Party to have waived its rights under this Section 22 unless Buyer demonstrates that its ability to defend against any Claims with respect thereto has been materially adversely affected.

(e) As used herein, an "Indemnified Party" shall refer to a "Buyer Indemnified Party" or "Seller Indemnified Party," as applicable, the "Notifying Party" shall refer to the party hereto whose Indemnified Parties are entitled to indemnification hereunder, and the "Indemnifying Party" shall refer to the party hereto obligated to indemnify such Notifying Party's Indemnified Parties.

(1) In the event that any of the Indemnified Parties is made a defendant in or party to any action or proceeding, judicial or administrative, instituted by any third party for the liability or the costs or expenses of which are Losses (any such third party action or proceeding being referred to as a "Claim"), the Notifying Party shall give the Indemnifying Party prompt notice thereof. The failure to give such notice shall not affect any Indemnified Party's ability to seek reimbursement unless such failure has materially and adversely affected the Indemnifying Party's ability to defend successfully a Claim. The Indemnifying Party shall be entitled to contest and defend such Claim; provided, that the Indemnifying Party (i) has a reasonable basis for concluding that such defense may be successful and (ii) diligently contests and defends such Claim. Notice of the intention so to contest and defend shall be given by the Indemnifying Party to the Notifying Party within 20 business days after the Notifying Party's notice of such Claim (but, in all events, at least five business days prior to the date that an answer to such Claim is due to be filed). Such contest and defense shall be conducted by reputable attorneys employed by the Indemnifying Party. The Notifying Party shall be entitled at any time, at its own cost and expense (which expense shall not constitute a Loss unless the Notifying Party reasonably determines that the Indemnifying Party is not adequately representing or, because of a conflict of interest, may not adequately represent, any interests of the Indemnified Parties, and only to the extent that such expenses are reasonable), to participate in such contest and defense and to be represented by attorneys of its or their own choosing. If the Notifying Party elects to participate in such defense, the Notifying Party will cooperate with the Indemnifying Party in the conduct of such defense. Neither the Notifying Party nor the Indemnifying Party may concede, settle or compromise any Claim without the consent of the other party, which consents will not be unreasonably withheld. Notwithstanding the foregoing, (i) if a Claim seeks equitable relief or (ii) if the subject matter of a Claim relates to the ongoing business of any of the Indemnified Parties, which Claim, if decided against any of the Indemnified Parties, would materially adversely affect the ongoing business or reputation of any of the Indemnified Parties, then in each such case, the Indemnified Parties alone shall be entitled to

contest, defend, or settle such claims in the first instance and, if the Indemnified Parties do not contest, defend or settle such claim, the Indemnifying Party shall then have the right to contest and defend (but not settle) such Claim.

(2) In the event any Indemnified Party should have a claim against any Indemnifying Party that does not involve a Claim, the Notifying party shall deliver a notice of such claim with reasonable promptness to the Indemnifying Party. If the Indemnifying Party notifies the Notifying Party that it does not dispute the claim described in such notice or fail to notify the Notifying Party within 30 days after delivery of such notice by the Notifying Party whether the Indemnifying Party disputes the claim described in such notice, the Loss in the amount specified in the Notifying Party's notice will be conclusively deemed a liability of the Indemnifying Party and the Indemnifying Party shall pay the amount of such Loss to the Indemnified Party on demand. If the Indemnifying Party has timely disputed its Liability with respect to such claim, the dispute shall be reached pursuant to Section 21 of this Agreement.

(3) After the Closing, the rights set forth in this Section 22 shall be each Party's sole and exclusive remedies against the other party hereto for misrepresentations or breaches of covenants contained in this Agreement and the Related Documents. Notwithstanding the foregoing, nothing herein shall prevent any of the Indemnified Parties from bringing an action based upon allegations of fraud or other intentional breach of any obligation of or with respect to either Party in connection with this Agreement and the Related Documents. In the event such action is brought, the prevailing Party's attorneys' fees and costs shall be paid by the non prevailing Party.

23. Post-Closing Access to Information. Buyer shall be entitled to access to the books and records of Seller at reasonable times and places for a period of 180 days after the Closing Date for the purpose of auditing the operations of the Compression Business by Seller during the years 1998 through 2001.

24. Miscellaneous Provisions.

(a) Governing Law and Jurisdiction of Disputes. This Agreement and all instruments executed in accordance herewith shall be governed by and interpreted in accordance with the laws of the State of Michigan, without regard to conflict of law rules that would direct the application of the laws of another jurisdiction. The exclusive venue for any proceeding in a court of law relating to this Agreement shall be a court of competent jurisdiction located in Grand Traverse County, Michigan.

(b) Entire Agreement. This Agreement and the attached exhibits constitute the entire agreement between the Parties and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties; provided, however, this provision shall not apply to paragraphs 10(b) and 12 of that letter of intent dated November 29, 2000, between the Parties, which paragraphs remain in full force and effect as written. No supplement, amendment, alteration, modification, waiver

or termination of this Agreement shall be binding unless executed in writing by the Parties.

(c) Waiver. No waiver of any provision of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver unless other expressly provided.

(d) Captions. The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement.

(e) Assignment. Neither Party shall assign this Agreement, or any of its rights or obligations hereunder, without the prior written consent of the other Party, which consent may be withheld in such other Party's sole discretion. Except as otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the Parties and their respective permitted successors and assigns. However, in any event Buyer and Seller shall remain responsible and liable for the performance of their obligations under this Agreement, in addition to their respective successors and assigns. All conveyances of all or any portion of the Acquired Assets shall expressly recognized and perpetuate the rights and obligations set forth in this Agreement.

(f) Notices. Any notice provided or permitted to be given or permitted to be given under this Agreement shall be in writing, and may be served by personal delivery or by registered or certified U.S. mail, addressed to the Party to be notified, postage prepaid, return receipt requested. Notice deposited in the mail in any manner herein above described shall be deemed to have been given and received on the date of the delivery as shown on the return receipt. Notice serviced in any other manner (including by facsimile delivery) shall be deemed to have been given and received only if and when actually received by the addressee. For the purposes of notice, the addresses of the Parties shall be as follows:

SELLER:

Great Lakes Compression, Inc.
16945 Northchase Drive
Suite 1750
Houston, Texas 77060
Attention: Mr. G. E. Lake Jr.
Telephone: (281) 873-3662
Fax: (281) 873-3639

BUYER:

Natural Gas Acquisition Corporation
2911 SCR 1260
Midland, Texas 79706
Attention: Mr. Wallace C. Sparkman
Telephone: (915) 563-3974
Fax: (915) 563-5567

Each Party shall have the right, upon giving three days prior notice to the other in the manner herein above provided, to change its address for the purposes of notice to any other street address.

(g) Expenses. Each Party shall be solely responsible for all expenses incurred by it in connection with this transaction (including, without limitation, fees and expenses of its own legal counsel and accountants).

(h) Severability. The invalidity of any one or more provisions of this Agreement shall not affect the validity of this Agreement as a whole, and in the case of any such invalidity, this Agreement shall be construed as if the invalid provision had not been included herein.

(i) Damages. The Parties waive any rights to special, indirect, punitive, exemplary or consequential damages resulting from a breach of this Agreement.

(j) No Third Party Beneficiary. This Agreement is not intended to create, nor shall it be construed to create, any rights in any third party under doctrines concerning third party beneficiaries.

(k) Survival. All representations and warranties on the part of Buyer and Seller in this Agreement or in any document delivered pursuant to this Agreement, including the closing documents, shall survive the Closing and shall terminate and become unenforceable on the second anniversary of the Closing Date. Buyer's obligation to pay the Deferred Purchase Price shall continue until the Deferred Purchase Price is fully paid as herein provided.

(l) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(m) Not Construed Against Drafter. Buyer and Seller acknowledge that they have read this Agreement, have had the opportunity to review it with an attorney of their respective choice, and have agreed to all of its terms. Under these circumstances, Buyer and Seller agree that the rule of construction that a contract be construed against the drafter shall not be applied in interpreting this Agreement, and that in the event of any ambiguity in any of the terms or conditions of this Agreement, including any exhibits

hereto, and whether or not placed of record, such ambiguity shall not be construed for or against either Party on the basis that such Party did or did not author the same.

(n) Publicity. Seller and Buyer shall consult with each other with regard to all publicity and other releases and disclosures to be made prior to, at or after closing concerning this Agreement and the transactions contemplated hereby, which are not otherwise expressly permitted by any confidentiality agreement executed by the Parties and, except as required by applicable law or the applicable rules or regulations of any governmental body or stock exchange, neither Party shall make any disclosure or issue any publicity or release without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed.

(o) Time of Performance. Time is of the essence in the performance of all covenants and obligations under this Agreement.

(p) No Partnership Created. It is not the purpose or intent of this Agreement to create (and it shall not be construed as creating) a joint venture, partnership or any type of association, and the Parties are not authorized to act as agent or principal for each other with respect to any matter related hereto.

(q) Execution by Facsimile. The Parties may execute and exchange counterparts of this Agreement and the other instruments and documents that they are required to deliver hereunder using telephonic facsimile with like effect as if executed originals were delivered; provided however, the executed originals of the faxed counterparts shall be exchanged between to the Parties with a five (5) business day of the Closing Date.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

BUYER:

NATURAL GAS ACQUISITION CORPORATION

By:/s/ Wallace C. Sparkman

Wallace C. Sparkman

Its: President

SELLER:

GREAT LAKES COMPRESSION, INC.

By:/s/

Its:

Exhibit 10.03

AMENDMENT TO GUARANTY AGREEMENT

THIS AMENDMENT (the "Amendment"), dated as of April __, 2002, is made by and between NATURAL GAS SERVICES GROUP, INC., a Colorado corporation (the "Guarantor"), and DOMINION MICHIGAN PRODUCTION SERVICES, INC., a Michigan corporation (the "Seller").

RECITALS

A. The Guarantor and the Seller are parties to a Limited Recourse Guaranty Agreement dated as of March 21, 2001 (the "Guaranty Agreement").

B. The Guarantor anticipates raising additional funds through an initial public offering of shares of its common stock and warrants to purchase shares of its common stock that is to be underwritten in part by Neidiger/Tucker/Bruner, Inc. and that is anticipated to take place in 2002.

C. The Guarantor has requested that certain amendments be made to the Guaranty Agreement, which the Seller is willing to make pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. Capitalized terms used in this Amendment which are defined in the Guaranty Agreement shall have the same meanings as defined therein, unless otherwise defined herein.

2. Section 11(g) of the Guaranty Agreement is hereby amended adding the following language to the beginning of the first sentence of that Section:

"Other than those payments and distributions contemplated by the IPO (as defined in Section 12 hereof),"

3. Section 12 of the Guaranty Agreement is hereby amended and restated in its entirety to read as follows:

> "Section 12. Initial Public Offering. Guarantor presently plans to raise additional funds through a public offering (the "IPO") and agrees that to the extent Buyer has not discharged its obligations under the Purchase Money Documents, the first $3,500,000 of the net proceeds of the IPO shall be applied to the unpaid balance of the Deferred Purchase Price plus any accrued interest."

4. No Other Changes. Except as explicitly amended by this Amendment, all of the terms and conditions of the Guaranty Agreement shall remain in full force and effect.

5. Applicable Law. This Amendment shall be governed by the laws of Michigan.

6. References. All references in the Guaranty Agreement to "this Guaranty" shall be deemed to refer to the Guaranty Agreement as amended hereby; and any and all references in the Asset Purchase Agreement to the Guaranty Agreement shall be deemed to refer to the Guaranty Agreement as amended hereby.

7. Miscellaneous. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

NATURAL GAS SERVICES GROUP, INC.	DOMINION MICHIGAN PRODUCTION SERVICES, INC.
By: --	By: --
Name: --	Name: --
Its: --	Its: --

Exhibit 10.04

LOAN AGREEMENT

BETWEEN

NATURAL GAS SERVICES GROUP, INC.

AND

WESTERN NATIONAL BANK

DATED AS OF SEPTEMBER 15, 1999

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LOAN AGREEMENT

This LOAN AGREEMENT, dated as of September 15, 1999, is made and entered into by and between NATURAL GAS SERVICES GROUP, INC., a Colorado corporation (the "Borrower"), and WESTERN NATIONAL BANK, a national banking association (the "Lender").

RECITALS

WHEREAS, the Borrower has requested that the Lender make loans to the Borrower; and

WHEREAS, the Bank is agreeable to the Borrower's requests but only upon and subject to the terms and provisions which are hereinafter specified.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. DEFINED TERMS. In addition to the terms defined in the preamble and elsewhere in this Agreement, the following terms shall have the following meanings:

"Advance" means any loan disbursement to or on behalf of Borrower under any of the Loan Papers, including, without limitation, all amounts advanced upon the execution hereof under the Notes and all Subsequent Advances.

"Affiliate" means, as to any person, (a) any other person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such person or (b) any person who is a director, officer or partner (i) of such person, (ii) of any Subsidiary of such person or (iii) of any person described in the preceding clause (a). For purposes of this definition, "control" of a person means the power, directly or indirectly, either to (i) vote 10% or more of the securities having ordinary voting power for the election of directors or managers of such person or (ii) direct or cause the direction of the management and policies of such person whether by contract or otherwise.

"Agreement" means this Loan Agreement, as amended, restated, supplemented or otherwise modified from time to time.

"Bank Liens" means Liens in favor of the Lender, securing all or any portion of the Obligations, including, but not limited to, Rights in any Collateral created in favor of the Lender, whether by mortgage, pledge, hypothecation, assignment, transfer or other granting or creation of Liens.

"Borrowings Base" means at any date the amount determined pursuant to Section 2.3 of this Agreement at such date.

"Borrowing Base Report" shall have the meaning given to such term as set forth in Section 2.3(b) of this Agreement.

"Business Day" means every day on which Lender is open for banking business.

"Change of Control" means the occurrence after the date of this Agreement of any circumstance or event in which (i) a person shall cause or bring about (through solicitation of proxies or otherwise) the removal or resignation of a majority of the members of the Board of Directors of the Borrower serving in such capacity on the date of this Agreement or a person causes or brings about (through solicitation of proxies or otherwise) an increase in the size of the existing Board of Directors of the Borrower such that the existing members of the Board of Directors thereafter represent a minority of the total number of persons comprising the entire Board; or (ii) a person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of any class of stock of the Borrower having thirty percent (30%) or more of the total number of votes that may be cast for the election of directors of the Borrower.

"Collateral" means any and all property, tangible or intangible, now existing or hereafter acquired, mortgaged, pledged, assigned or otherwise encumbered by the Borrower, the Subsidiaries or any other person to or for the benefit of the Lender pursuant to any of the Loan Papers now or hereafter executed and delivered by the Borrower or any of its Subsidiaries or any other person to secure the payment and performance of the Notes and obligations of the Borrower hereunder or under any of the other Loan Papers, as any such Loan Paper may be amended, supplemented or otherwise modified from time to time.

"Consolidated Cash Flow" means, with respect to any period of calculation thereof, the sum of (i) the consolidated net income (or loss) from continuing operations of the Borrower and its Subsidiaries during such period (excluding extraordinary income but including extraordinary expenses), plus (ii) depreciation, depletion, amortization and interest expenses deducted in determining consolidated net income (or loss) of the Borrower and its Subsidiaries during such period, all determined on a consolidated basis.

"Consolidated Current Ratio" means the ratio of (i) the sum of the current assets of the Borrower and its Subsidiaries to (ii) the sum of the current liabilities of the Borrower and its Subsidiaries, all determined on a consolidated basis.

"Consolidated Debt" means at a particular date the total Debt of the Borrower and its Subsidiaries, determined on a consolidated basis.

"Consolidated Fixed Charges" means, with respect to any period of calculation thereof, the sum of (a) the aggregate principal amount of all Debt of the Borrower and its Subsidiaries paid or due and payable during such period plus (b) all interest, including, without limitation, imputed interest in connection with Financing Leases, paid or accrued by the Borrower and its Subsidiaries during such period; provided, however, that any

principal amount of Debt and any interest payable in one fiscal period and paid in another shall not be twice included in Consolidated Fixed Charges.

"Consolidated Intangible Assets" means those assets of the Borrower and its Subsidiaries, determined on a consolidated basis, that would be classified as intangible assets in accordance with generally accepted accounting principles, but in any event including, without limitation, (i) deferred assets, other than prepaid insurance and prepaid taxes; (ii) patents, copyrights, trademarks, tradenames, franchises, goodwill, experimental expenses and other similar assets which would be classified as intangible assets on a balance sheet of such person, prepared in accordance with generally accepted accounting principles; (iii) unamortized debt discount and expense, and unamortized organization and reorganization expense; and (iv) assets located, and notes and receivables due from obligors domiciled, outside of the United States.

"Consolidated Tangible Net Worth" means at a particular date (i) the sum of all amounts which would be included under stockholders' equity, on a consolidated balance sheet of the Borrower and its Subsidiaries, less (ii) the sum of the aggregate book value of Consolidated Intangible Assets, all determined on a consolidated basis.

"Contractual Obligation" means, as to any person, any provision of any security issued by such person or of any agreement, instrument or other undertaking to which such person is a party or by which it or any of its property is bound.

"Debt" means, for the Borrower and any Subsidiary, at any particular date, and without duplication, the sum at such date of (i) all indebtedness of such person for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices) for which such person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which such person otherwise assures a creditor against loss; (ii) all obligations of such person under leases which shall have been, or should have been, in accordance with generally accepted accounting principles, recorded as capital leases in respect of which such person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such person otherwise assures a creditor against loss; (iii) unfunded vested benefits under each ERISA Plan; (iv) all indebtedness and other liabilities secured by any Lien on any property owned by such person even though such person has not assumed or otherwise become liable for payment thereof; (v) all obligations of such person in respect of letters of credit, acceptances or similar obligations issued or created for the account of such person; and (vi) indebtedness of such person evidenced by a bond, debenture, note or similar instrument.

"Environmental Complaint" means any complaint, request for information, summons, order, demand, citation, notice or other written communication from any person or Governmental Authority with respect to the existence or alleged existence of a violation of any Requirement of Law or liability resulting from any air emission, water discharge, noise emission, asbestos, Hazardous Substance or any other environmental,

health or safety matter at, upon, under or within any of the property owned, operated or used by the Borrower or any of its Subsidiaries.

"ERISA Plan" shall have the meaning given to such term as set forth in Section 4.15 of this Agreement.

"Event of Default" shall have the meaning given to such term as set forth in Section 7.1 of this Agreement.

"Financing Lease" means any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with generally accepted accounting principles to be capitalized on a balance sheet of the lessee.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guarantors" means (i) the Subsidiaries identified in Section 4.18 of this Agreement, (ii) Wallace O. Sellers, (iii) Cav-Rdv, Ltd., (iv) Wallace C. Sparkman and Diamente Investments, L.P., (v) Richard L. Yadon and (vi) Danny M. Crocker.

"Hazardous Substance" shall have the meaning given to such term as set forth in Section 4.20 of this Agreement.

"Highest Lawful Rate" means the maximum rate of interest (or, if the context so requires, an amount calculated at such rate) which Lender is allowed to contract for, charge, take, reserve or receive under applicable law after taking into account, to the extent required by applicable law, any and all relevant payments or charges under the Loan Papers.

"Lien" means any interest in property securing an obligation owed to, or a claim by, a person other than the owner of the property, whether such interest is based on the common law, statute or contract, including, but not limited to, a lien or security interest arising from any mortgage, encumbrance, pledge, hypothecation, assignment, deposit arrangement, or preference, priority or other security agreement (including, without limitation, any conditional sale or other title retention agreement or trust receipt or a lease, consignment or bailment for security purposes). The term "Lien" shall also include reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting property.

"Loan Papers" means (i) this Agreement, (ii) the Notes and (iii) any and all notes, mortgages, deeds of trust, security agreements, pledge agreements, financing statements, guaranties, and other agreements, documents, certificates, letters and instruments ever delivered or executed pursuant to, or in connection with, this Agreement, whether existing on the date hereof or thereafter created, as any of the same may hereafter be amended, supplemented, extended or restated.

"Material Adverse Effect" means any set of circumstances or events which (i) has, will or could reasonably be expected to have any material adverse effect upon the validity or enforceability of this Agreement or any of the other Loan Papers or the Rights or remedies of the Lender hereunder or thereunder; (ii) is or could reasonably be expected to be material and adverse to the financial condition, business, operations, property or prospects of the Borrower or any of its Subsidiaries; (iii) will or could reasonably be expected to impair the ability of the Borrower or any of its Subsidiaries to perform its respective obligations under the terms and conditions of any of the Loan Papers to which it is a party; or (iv) will or could reasonably be expected to cause an Event of Default.

"Material Agreement" of any person means any material written or oral agreement, contract, commitment, arrangement or understanding to which such person is a party, by which such person is directly or, to such person's knowledge, indirectly bound, or to which any asset of such person may be subject, which is not cancelable by such person upon 30 days or less notice without liability for further payment other than nominal penalties, excluding, however, such agreements, contracts, commitments, arrangements or understandings pursuant to which the subject matter thereof does not exceed $50,000.00 in the aggregate.

"Notes" means the Term Promissory Note and the Revolving Line of Credit Promissory Note, as further described in Section 2.1 of this Agreement.

"Obligations" means the unpaid principal of and interest on the Notes and all other present and future indebtedness, obligations and liabilities of the Borrower and any of its Subsidiaries to the Lender, and all renewals, rearrangements and extensions thereof, or any part thereof, now or hereafter owed to Lender by the Borrower or any of its Subsidiaries arising from, by virtue of, or pursuant to any Loan Paper, or otherwise, together with all interest accruing thereon and all costs, expenses and attorneys' fees incurred in the enforcement or collection thereof, whether such indebtedness, obligations and liabilities are direct, indirect, fixed, contingent, liquidated, unliquidated, joint, several, or joint and several or were, prior to acquisition thereof by Lender, owed to some other person.

"Prime Rate" means that variable rate of interest per annum published in the Money Rates section of The Wall Street Journal as its "prime rate." If the Money Rates section of The Wall Street Journal does not have a rate designated by it as its "prime rate," then the "Prime Rate" shall be deemed to be the variable rate of interest per annum which is the general reference rate designated by the Lender as its "reference rate," "base rate" or other similar rate and which is comparable to the "Prime Rate" as described above. The Prime Rate is used by Lender as a general reference rate of interest, taking into account such factors as Lender may deem appropriate, it being understood that it is not necessarily the lowest or best rate actually charged to any customer and that Lender may make various commercial or other loans at rates of interest having no relationship to such rate.

"Relevant Environmental Law" means any and all foreign, federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health, wildlife or the environment, as now or may at any time hereafter be in effect.

"Requirement of Law" means, as to any person, the certificate and articles of incorporation and bylaws, articles of organization, regulations or other organizational or governing documents of such person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such person or any of its property or to which such person or any of its property is subject.

"Rights" means rights, remedies, powers, privileges and benefits.

"Subsequent Advance" means any disbursement to or on behalf of Borrower after the initial Advance under the Revolving Line of Credit Promissory Note pursuant to the provisions of Section 2.1 and Section 2.2 hereof.

"Subsidiary" means, as to the Borrower or any other designated person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors, managers or other governing body of such corporation, partnership, limited liability company or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly, through one or more intermediaries, or both, by the Borrower or such other designated person.

SECTION 1.2. ACCOUNTING PRINCIPLES. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement or any other Loan Paper, such determination, consolidation or computation shall be made in accordance with generally accepted accounting principles consistently applied, except where such principles are inconsistent with the requirements or definitions of this Agreement.

SECTION 1.3. DIRECTLY OR INDIRECTLY. When any provision in this Agreement refers to action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable where the action in question is taken directly or indirectly.

SECTION 1.4. PLURAL AND SINGULAR FORMS. The definitions given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 1.5. REFERENCES. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

ARTICLE II
AMOUNT AND TERMS OF LOANS

SECTION 2.1. THE LOANS. Subject to and upon the terms and conditions and relying on the representations and warranties contained in this Agreement, Lender agrees to make loans to the Borrower as follows:

(a) Term Loans - Contemporaneously with the execution and delivery hereof, the Borrower shall execute and deliver to the Lender the Term Promissory Note in the form of Exhibit A hereto in the original principal amount of $1,500,000.00 (the "Term Promissory Note"). Subject to and upon the terms and conditions of this Agreement, the entire amount of the Term Promissory Note will be funded in a single Advance. The Term Promissory Note shall be stated to mature five years from the date of such note and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in the Term Promissory Note. Principal and interest on the Term Promissory Note shall be payable in the manner and on the dates specified therein.

(b) Revolving Loans - Contemporaneously with the execution and delivery hereof, the Borrower shall execute and deliver to the Lender the Revolving Line of Credit Promissory Note in the form of Exhibit B hereto in the original principal amount of $750,000.00 (the "Revolving Line of Credit Promissory Note"). Subject to and upon the terms and conditions of this Agreement and the Revolving Line of Credit Promissory Note, the Borrower may request one or more Advances and borrow, prepay and reborrow at any time and from time to time under the Revolving Line of Credit Promissory Note; provided, however, the aggregate principal amount of all Advances outstanding at any one time under the Revolving Line of Credit Promissory Note shall never exceed the lesser of (i) $750,000.00 or (ii) the Borrowing Base then in effect. The Revolving Line of Credit Promissory Note shall be stated to mature two years from the date of such note and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in the Revolving Line of Credit Promissory Note. Principal and interest on the Revolving Line of Credit Promissory Note shall be payable in the manner and on the dates specified therein.

SECTION 2.2. PROCEDURE FOR BORROWING.

(a) At the time of the initial Advance under the Term Promissory Note or the Revolving Line of Credit Promissory Note, as the case may be, the conditions set forth in Section 3.1 of this Agreement shall have been satisfied and, with respect to each Subsequent Advance under the Revolving Line of Credit Promissory Note, the conditions set forth in Section 3.2 hereof shall have been satisfied at the time of each such Subsequent Advance. At the time of each request for a Subsequent Advance under the Revolving Line of Credit Promissory Note, the Borrower shall simultaneously furnish to the Lender a written notice of borrowing (dated as of the date of the request for such Subsequent Advance and otherwise being in substantially the form attached hereto as Exhibit C) confirming (i) the amount of the requested Subsequent Advance and (ii) the absence of any Event of Default at the date of such request. Each request for a

Subsequent Advance under the Revolving Line of Credit Promissory Note must be in the minimum amount of $50,000.00 or the unadvanced portion of the Revolving Line of Credit Promissory Note, whichever is less. Assuming the satisfaction of the conditions set forth in this Section 2.2, requests for Subsequent Advances under the Revolving Line of Credit Promissory Note will be funded on the same Business Day that Lender receives Borrower's request for each such Subsequent Advance; provided that Borrower's request is received by the Lender prior to 12:00 noon on the date of any such request.

(b) The Lender shall maintain in accordance with its usual practice one or more accounts or other records evidencing the Obligations of the Borrower to the Lender resulting from each loan made by the Lender from time to time under the Notes, including the amounts of principal and interest payable and paid to the Lender from time to time under this Agreement and each respective Note. The entries made in such accounts or records of the Lender shall be prima facie evidence of the existence and amounts of the Obligations of the Borrower and its Subsidiaries therein recorded; provided, however, that the failure of the Lender to maintain any such accounts or records, or any error therein, shall not in any manner affect the absolute and unconditional obligation of the Borrower to repay (with applicable interest) all loans made to the Borrower in accordance with the terms of this Agreement and the Notes.

SECTION 2.3. BORROWING BASE. The Borrowing Base shall be determined as follows:

(a) Initial Borrowing Base. The initial Borrowing Base shall be $750,000.00 during the period from the date hereof to the date on which the Borrower receives notice of the first redetermination of the Borrowing Base by the Lender pursuant to Section 2.3(b) and thereafter the amount of the Borrowing Base shall be the Borrowing Base most recently determined pursuant to Section 2.3(b).

(b) Redeterminations of the Borrowing Base.

(i) No later than 30 days after the end of each month, the Borrower shall, at its own expense, furnish to the Bank a borrowing base report (the "Borrowing Base Report") in the form attached hereto as Exhibit D, which shall be dated as of the end of each such month.

(ii) Within 15 days after it receives each Borrowing Base Report, the Lender shall redetermine the Borrowing Base, and shall notify the Borrower of the new Borrowing Base, if any; provided, however, if the Lender does not so notify the Borrower of a new Borrowing Base within such 15-day period, then the Borrowing Base set forth in the Borrowing Base Report furnished to the Lender by the Borrower pursuant to Section 2.3(b)(i) shall be deemed to be the redetermined Borrowing Base until a new Borrowing Base is redetermined by the Lender and notice of such new Borrowing Base is given by the Lender to the Borrower. Each redetermination of the Borrowing Base shall be made by the Lender in the exercise of its sole discretion in accordance with the then current standards and practices of the Lender for similar loans, taking into account such factors as the Lender may deem appropriate, including, without limitation, the

nature and extent of the Borrower's interest in the accounts and leases receivable and inventory upon which the Borrowing Base is then redetermined and the anticipated timing and extent of net operating income therefrom. The Lender may in its sole discretion discount the value of any property included in the redetermination of the Borrowing Base as set forth in a Borrowing Base Report by the same factors utilized by it in discounting the value of comparable borrowing base assets in comparable transactions for comparable borrowers.

(iii) Each delivery by the Borrower to the Lender of a Borrowing Base Report shall be deemed to constitute a representation and warranty by the Borrower to the Lender that the Borrower and its Subsidiaries have good and marketable title to the Collateral owned by each of them and described therein, and that such Collateral is not subject to any Lien other than Bank Liens and Liens permitted by Section 6.8.

SECTION 2.4. OPTIONAL AND MANDATORY PREPAYMENTS.

(a) The Borrower may at any time and from time to time prepay either one or both of the Notes, in whole or in part, without premium or penalty, upon prior or simultaneous irrevocable notice to the Lender, specifying the Note to be prepaid, the date and the amount of prepayment. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein. Partial prepayments shall be in an aggregate principal amount of $20,000.00 or a whole multiple thereof, or shall equal the aggregate outstanding balance of the Note being prepaid.

(b) If the aggregate unpaid principal amount of the Revolving Line of Credit Promissory Note shall at any time exceed the Borrowing Base at such time, the Lender shall so notify the Borrower, and the Borrower shall, within fifteen Business Days after such notification, prepay the principal of the Revolving Line of Credit Promissory Note in an aggregate amount at least equal to such excess, together with accrued interest on the amount prepaid to the date of such prepayment.

SECTION 2.5. PAYMENT PROCEDURE. Each payment or prepayment on the Notes must be made at the principal office of Lender in funds which are or will be available for immediate use by Lender on or before 12:00 noon Midland, Texas time on the day such payment is due or such prepayment is made. In any case where a payment of principal of, or interest on, the Notes is due on a day which is not a Business Day, the Borrower shall be entitled to delay such payment until the next succeeding Business Day, but interest shall continue to accrue until the payment is in fact made.

SECTION 2.6. ORDER OF APPLICATION. Except as otherwise provided in the Loan Papers, all payments and prepayments on the Obligations, including proceeds from the exercise of any Rights of Lender under the Loan Papers, shall be applied to the Obligations in the following order: (i) first, to reasonable expenses for which Lender shall not have been reimbursed under the Loan Papers and then to all amounts to which Lender is entitled to indemnification under the Loan Papers; (ii) to the accrued interest on the Note being paid or prepaid; (iii) to the principal of

the Note being paid or prepaid and, with regard to the Term Promissory Note, applied upon installments of most remote maturity; and (iv) to the remaining Obligations.

ARTICLE III

CONDITIONS PRECEDENT

SECTION 3.1. CONDITIONS TO INITIAL ADVANCE. The obligation of Lender to make the initial Advance pursuant to this Agreement under either one of the Notes is subject to the satisfaction and fulfillment of each of the following conditions precedent which shall have occurred on or before the date hereof, or simultaneously with the closing of the transactions contemplated by this Agreement, unless compliance therewith shall have been waived in writing by Lender:

(a) There shall have been duly executed, where appropriate, and delivered by the Borrower (and/or any other requisite party thereto) the following:

(i) this Agreement;

(ii) the Term Promissory Note;

(iii) the Revolving Line of Credit Promissory Note;

(iv) the Stock Pledge Agreements covering the capital stock of NGE Leasing, Inc., Flare King, Inc. and Natural Gas Engine Co., in each case being in substantially the form attached hereto as Exhibit E;

(v) the Limited Liability Company Pledge Agreements covering the limited liability company membership interests of Hi-Tech Compressor Company, L.C. and Gas Engine Service, LLC, in each case being in substantially the form attached hereto as Exhibit F;

(vi) the Security Agreement in substantially the form attached hereto as Exhibit G;

(vii) a certificate of account status (good standing) and a certificate of existence for Borrower in the jurisdiction under the laws of which Borrower is organized and in each jurisdiction wherein Borrower's operations, transaction of business or ownership of property make qualification as a foreign corporation necessary;

(viii) an Officer's Certificate in substantially the form attached hereto as Exhibit H, which shall contain the names and signatures of the officers of the Borrower authorized to execute Loan Papers and which shall certify to the truth, correctness and completeness of the following exhibits attached thereto: (A) a copy of resolutions duly adopted by the Board of Directors of the Borrower and in full force and effect at the time this Agreement is entered into, covering the matters described in subparagraph (d) below of this Section 3.1, (B) a copy of the charter documents of Borrower and all amendments thereto, certified by the

appropriate official of Borrower's state of organization, and (C) a copy of the bylaws of Borrower, and certifying as to such other matters as Lender may reasonably require; and

(ix) such other documents or instruments as Lender may reasonably require.

(b) There shall have been executed, where appropriate, and delivered by the Guarantors (and/or any other requisite party thereto) the following, all of which shall be in form and substance satisfactory to Lender and its counsel:

(i) in the case of the Subsidiaries, the Guaranty Agreement in substantially the form attached hereto as Exhibit I:

(ii) in the case of the Guarantors other than the Subsidiaries, the Limited Guaranty Agreement in substantially the form attached hereto as Exhibit J;

(iii) in the case of the Subsidiaries, a Security Agreement in substantially the form attached hereto as Exhibit G;

(iv) a certificate of account status (good standing) and a certificate of existence for each Subsidiary in the jurisdiction under the laws of which each Subsidiary is organized and in each jurisdiction wherein its operations, transaction of business or ownership of property made qualification as a foreign entity necessary;

(v) an Officer's Certificate of each Subsidiary in substantially the form attached hereto as Exhibit H, which shall contain the names and signatures of the officers or members of each Subsidiary authorized to execute Loan Papers and which shall certify to the truth, correctness and completeness of the following exhibits attached thereto: (A) a copy of resolutions duly adopted by the Board of Directors or Managers, as the case may be, of such Subsidiary and in full force and effect at the time this Agreement is entered into, covering the matters described in subparagraph (e) below of this Section 3.1, (B) a copy of the charter or other organizational documents of each such Subsidiary and all amendments thereto, certified by the appropriate official of such Subsidiary's state of organization, and (C) a copy of the bylaws or regulations of each such Subsidiary, and certifying as to such other matters as Lender may reasonably require; and

(vi) such other documents or instruments as Lender may reasonably require.

(c) All requirements of notice to perfect each Bank Lien shall have been accomplished or arrangements made therefor to the satisfaction of Lender and its counsel;

(d) The Borrower shall have approved the execution, delivery and performance of the Loan Papers to which it is a party by resolutions satisfactory to Lender and its counsel, authorizing (i) the execution, delivery and performance of this Agreement, the Notes and the other Loan Papers to which the Borrower is a party, (ii) the borrowings contemplated hereunder and (iii) the granting by it of the pledge and security interests pursuant to the Loan Papers to which the Borrower is a party and appropriate certificates as to such actions, showing the parties authorized to execute the Loan Papers and all items required herein, shall have been delivered to the Lender;

(e) The respective boards of directors, managers, or other governing body, as the case may be, of each Guarantor (excluding Messrs. Sellers, Sparkman, Yadon and Crocker) shall have approved the execution, delivery and performance of the Loan Papers to which it is a party by resolutions satisfactory to Lender and its counsel, authorizing (i) the execution, delivery and performance of the Loan Papers to which it is a party, (ii) acknowledging the benefits and consideration to such Guarantor from the borrowings contemplated hereunder and (iii) authorizing the granting by it of the pledge and security interests pursuant to the Loan Papers to which it is a party and appropriate certificates as to such actions, showing the parties authorized to execute such Loan papers and all items required herein, shall have been delivered to Lender;

(f) There shall exist no Event of Default hereunder, nor shall any events or circumstances have occurred, and not theretofore been cured, which with notice or lapse of time or both, would constitute an Event of Default hereunder;

(g) The representations and warranties of the Borrower contained in Article IV shall be true and correct in all material respects;

(h) No suit, action or other proceeding by a third party or a Governmental Authority shall be pending or threatened which relates to this Agreement or the transactions contemplated hereby; and

(i) All Liens (other than Bank Liens) securing the Debt described in Section 4.11 hereof shall be released, terminated or assigned to the Lender, or arrangements made therefor satisfactory to the Lender in its sole discretion.

SECTION 3.2. CONDITIONS TO SUBSEQUENT ADVANCES. The obligation of the Lender to make any Subsequent Advance under the Revolving Line of Credit Promissory Note requested to be made by the Borrower on any date is subject to the satisfaction of the following conditions precedent:

(a) Each of the representations and warranties made by the Borrower in or pursuant to the Loan Papers shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(b) No Event of Default shall have occurred and be continuing on such date or after giving effect to the Subsequent Advance requested to be made on such date.

(c) Notwithstanding Section 2.4(b), after giving effect to the Advances under the Revolving Line of Credit Promissory Note requested by Borrower to be made on any date, the aggregate principal amount of the Revolving Line of Credit Promissory Note then outstanding shall not exceed the lesser of (i) $750,000.00 or (ii) the Borrowing Base then in effect.

(d) No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority shall be pending or, to the knowledge of the Borrower, threatened by or against the Borrower or the Lender with respect to this Agreement or any of the other Loan Papers or the transactions contemplated by this Agreement or any of the other Loan Papers.

(e) The Lender shall have received all Borrowing Base Reports required to be delivered by Borrower pursuant to Section 2.3(b)(i).

Each borrowing by the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date thereof that the conditions contained in this Section 3.2 have been satisfied.

SECTION 3.3. CORPORATE PROCEEDINGS AND DOCUMENTS. In addition to the conditions precedent set forth in Section 3.1 and Section 3.2, all corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement and the other Loan Papers shall be satisfactory in form, substance and date to the Lender, and Lender shall have received such other documents and legal opinions in respect of any aspect or consequence of the transactions contemplated hereby or thereby as it shall reasonably request.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

As a material inducement to Lender to enter into this Agreement, the Borrower hereby represents and warrants to the Lender that:

SECTION 4.1. ORGANIZATION, EXISTENCE AND GOOD STANDING; COMPLIANCE WITH LAW. The Borrower and each of its Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of its state of organization, (b) is duly qualified, in good standing and authorized to do business in each jurisdiction where the character of its operations, transaction of business or ownership of property makes such qualification necessary, except where the absence of qualification, good standing or authorization would not have a Material Adverse Effect and (c) is in compliance with all Requirements of Law, except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect. Schedule I attached hereto sets forth the jurisdiction of organization and each other jurisdiction in which the Borrower and its Subsidiaries are qualified to do business.

SECTION 4.2. AUTHORIZATION. Each of the Borrower and its Subsidiaries has the corporate or limited liability company power and authority, and the legal right, to make, deliver and perform the Loan Papers to which it is a party and, in the case of the Borrower, to borrow hereunder, and in the case of the Subsidiaries, to guarantee the obligations of the Borrower

hereunder, and each of the Borrower and its Subsidiaries has taken all necessary corporate or limited liability company action to authorize the borrowings and other transactions on the terms and conditions of each Loan Paper to which it is a party, the grant of the Bank Liens on the Collateral pursuant to the Loan Papers to which it is a party and the execution, delivery and performance of the Loan Papers to which it is a party.

SECTION 4.3. ENFORCEABLE OBLIGATIONS. This Agreement and each of the other Loan Papers to which the Borrower or any of its Subsidiaries is a party have been duly executed and delivered on behalf of the Borrower or its Subsidiaries, as the case may be. This Agreement constitutes and the other Loan Papers to which the Borrower or any of its Subsidiaries is a party, when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower and any of its Subsidiaries, as the case may be, enforceable against the Borrower and any of its Subsidiaries, as the case may be, in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, fraudulent transfer or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

SECTION 4.4. NO CONFLICTS OR CONSENTS. The execution, delivery and performance of this Agreement, the Notes and the other Loan Papers, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or Contractual Obligation of the Borrower or any of its Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties, assets or revenues pursuant to any such Requirement of Law or Contractual Obligation, except as contemplated by the Loan Papers. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other person is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes or the other Loan Papers.

SECTION 4.5. FINANCIAL STATEMENTS. The combined audited financial statements of CNG Engines Co., Flare King, Inc., Hi-Tech Compressor Company, L.C., NGE Leasing, Inc. (formerly Natural Gas Engine Co.) and Gas Engine Services, LLC for the fiscal year ended December 31, 1998, and the interim unaudited consolidated financial statements of the Borrower and its Subsidiaries for the five-month period ended May 31, 1999, which have been delivered to Lender, are complete and correct as they relate to the Borrower and its Subsidiaries, have been prepared in accordance with generally accepted accounting principles, consistently applied, and present fairly the consolidated financial condition and results of operations of the Borrower and its Subsidiaries, as of the dates and for the periods stated (subject only to normal year-end adjustments with respect to such unaudited interim statements). During the period from December 31, 1998 to and including the date hereof, no change has occurred in the condition, financial or otherwise, of the Borrower and its consolidated Subsidiaries, taken as a whole, which could reasonably be expected to result in a Material Adverse Effect, and there has been no sale, transfer or other disposition by the Borrower or any of its Subsidiaries since December 31, 1998 of any material part of its business or property and no purchase or other acquisition of any business or property material in relation to the consolidated condition, financial or otherwise, of the Borrower and its Subsidiaries.

SECTION 4.6. OTHER OBLIGATIONS. As of the date hereof, neither Borrower nor any Subsidiary has any outstanding Debt or other material liabilities, direct or indirect, absolute or contingent, which is, in the aggregate, material to the Borrower and its Subsidiaries and not shown in the financial statements referred to in Section 4.5 hereof. Borrower is not aware of any fact, circumstance, act, condition or development which will have or which threatens to have any Material Adverse Effect.

SECTION 4.7. INVESTMENTS, ADVANCES AND GUARANTIES. At the date of this Agreement, Borrower has not made investments in, advances to or guaranties of the obligations of any person, except as reflected in the financial statements referred to in Section 4.5 hereof.

SECTION 4.8. LITIGATION. There is no litigation, legal, administrative or arbitral proceeding, investigation or other action of any nature pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower which involves the possibility of any judgment or liability not fully covered by indemnity agreements or insurance, and which would have a Material Adverse Effect.

SECTION 4.9. NO BURDENSOME RESTRICTIONS. No unusual or unduly burdensome restriction, restraint or hazard exists under or by reason of any Contractual Obligation or, to the best of Borrower's knowledge, any Requirement of Law.

SECTION 4.10. TAXES. All tax returns required to be filed by the Borrower and its Subsidiaries with all Governmental Authorities have been filed, and all taxes, assessments, fees and other governmental charges imposed upon Borrower and its Subsidiaries or upon any of their respective property, income or franchises which are due and payable, have been paid (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles have been provided on the consolidated financial statements of the Borrower); and no tax Lien has been filed and, to the knowledge of Borrower, no claim is being asserted with respect to any such tax, fee or other charge.

SECTION 4.11. PURPOSE OF LOAN. The proceeds of the loans made pursuant to Section 2.1 and evidenced by the Notes will be used for the following purposes:

(a) with respect to loans made pursuant to and evidenced by the Term Promissory Note, for the repayment of the indebtedness described on Schedule II hereto; and

(b) with respect to loans made pursuant to and evidenced by the Revolving Line of Credit Promissory Note, for general working capital purposes.

SECTION 4.12. TITLE TO PROPERTIES; LIENS. Each of the Borrower and its Subsidiaries have good record and defensible title to, or a valid leasehold interest in, all its real property, and good title to all its other properties and, except for Liens of the type permitted under Section 6.8 of this Agreement, there are no Liens on any properties or assets of the Borrower or any of its Subsidiaries.

SECTION 4.13. INSURANCE. The Borrower and its Subsidiaries maintain with financially sound and reputable insurance companies insurance in at least such amounts and against at least such risks (but including in any event public liability) as are usually insured against in the same general area by companies engaged in the same or a similar business and such insurance is otherwise in compliance with the Loan Papers.

SECTION 4.14. NO DEFAULT. Neither the Borrower nor any of its Subsidiaries is in default under or with respect to any of its Contractual Obligations in any respect, other than defaults which could not have a Material Adverse Effect. No Event of Default has occurred and is continuing.

SECTION 4.15. ERISA PLANS. Borrower does not have any plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA Plan").

SECTION 4.16. PRINCIPAL BUSINESS OFFICE AND LOCATION OF RECORDS. The Borrower's principal place of business and chief executive offices are located at 710 Buffalo Street, Suite 201, Corpus Christi, Texas 78401, and the records of the Borrower and each of its Subsidiaries concerning its ownership of assets, business and operations are located at such address.

SECTION 4.17. LICENSES, PERMITS AND FRANCHISES, ETC. The Borrower and each of its Subsidiaries owns, or is licensed to use, all permits, know-how, processes, technology, franchises, patents, patent rights, trade names, trademarks, trademark rights and copyrights which are necessary or required for the ownership or operation of its properties and the conduct of its business. Borrower is not aware of any fact or condition that might cause any of such rights not to be renewed in due course.

SECTION 4.18. SUBSIDIARIES. The following constitute all the Subsidiaries of the Borrower at the date hereof:

C.N.G. Engines Company
Flare King, Inc.
Hi-Tech Compressor Company, L.C.
NGE Leasing, Inc.
Gas Engine Service, LLC

Each such Subsidiary is wholly owned by the Borrower, except that (i) Gas Engine Service, LLC is a wholly owned Subsidiary of C.N.G. Engines Company and (ii) Hi-Tech Compressor Company, L.C. is owned 50% by the Borrower and 50% by Flare King, Inc.

SECTION 4.19. NO MATERIAL OMISSIONS OR MISSTATEMENTS. No information, exhibit or report furnished to Lender by the Borrower in connection with the negotiation of this Agreement contains any material misstatement of fact or omits to state a material fact or any fact necessary to make the statements contained therein not misleading. Without limiting the generality of the foregoing, there are no material facts relating to the Loan Papers, the Collateral or the financial condition, assets, liabilities, results of operations or business of the Borrower or any of its Subsidiaries which could, collectively or individually, have a Material Adverse Effect and which have not been disclosed in writing to Lender as an exhibit to this Agreement or in the financial statements of the Borrower referred to in Section 4.5 of this Agreement.

SECTION 4.20. ENVIRONMENTAL MATTERS.

(a) No Environmental Complaint has been issued or filed, no penalty has been assessed and, to the knowledge of Borrower, no investigation or review is pending or threatened by any Governmental Authority or other person (i) with respect to any alleged violation of any law, ordinance, rule, regulation or order of any Governmental Authority in connection with the property, operations or conduct of the business of the Borrower or any of its Subsidiaries, (ii) with respect to any alleged failure to have any permit, certificate, license, approval, requisition or authorization required in connection with the property, operations or conduct of the business of the Borrower or any of its Subsidiaries or (iii) with respect to any generation, treatment, storage, recycling, transportation or disposal or release, all as defined in 42 USC Section 9601(22) ("Release") (other than Releases in compliance with Relevant Environmental Laws or permits issued thereunder), of any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, solid waste, contaminants, polychlorinated biphenyls, paint containing lead, urea, formaldehyde, foam insulation, and discharge of sewage or effluent, whether or not regulated under federal, state or local environmental statutes, ordinances, rules, regulations or orders ("Hazardous Substance") generated by the operations or business, or located at any property, of the Borrower or any of its Subsidiaries.

(b) Except in substantial compliance with Relevant Environmental Laws and permits issued thereunder (i) neither the Borrower nor its Subsidiaries, nor the businesses conducted by the Borrower and its Subsidiaries, have placed, held, located or disposed of any Hazardous Substance on, under or at any property now or previously owned or leased by the Borrower or any of its Subsidiaries, and none of such properties has been used (by the Borrower or any of its Subsidiaries) as a dump site or storage (whether permanent or temporary) site for any Hazardous Substance; (ii) no polychlorinated biphenyls, urea or formaldehyde is or has been present at any property now or previously owned or leased by the Borrower or any of its Subsidiaries; (iii) no asbestos is or has been present at any property now or previously owned or leased by the Borrower or any of its Subsidiaries; (iv) there are no underground storage tanks which have been used to store or have contained any Hazardous Substance, active or abandoned, at any property now or previously owned or leased by the Borrower or any of its Subsidiaries; (v) no Hazardous Substance has been released at, on or under any property previously owned or leased by the Borrower or any of its Subsidiaries; and (vi) no Hazardous Substance has been released or is present, in a reportable or threshold quantity, where such a quantity has been established by statute, ordinance, rule, regulation or order, at, on or under any property now or previously owned by the Borrower or any of its Subsidiaries.

(c) The Borrower and its Subsidiaries have not transported or arranged for the transportation (directly or indirectly) of any Hazardous Substance to any location which is listed or proposed for listing under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 ("CERCLA"), the Comprehensive Environmental Response, Compensation and Liability Information System ("CERCLIS") or on any similar state list

or which is the subject of federal, state or local enforcement actions or other investigations.

(d) There are no environmental Liens on any property owned or leased by the Borrower or any of its Subsidiaries, and no actions by any Governmental Authority have been taken or are in the process of being taken which could subject any of such properties to such Liens.

(e) Prior to the date hereof, the Borrower has provided to Lender all environmental investigations, studies, audits, tests, reviews or other analyses conducted by or which are in the possession of the Borrower or any of its Subsidiaries in relation to any property or facility now or previously owned or leased by the Borrower or any of its Subsidiaries.

SECTION 4.21. INVESTMENT COMPANY ACT. Neither the Borrower nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

SECTION 4.22. PUBLIC UTILITY HOLDING COMPANY ACT. The Borrower is not a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

SECTION 4.23. YEAR 2000 COMPLIANCE. The Borrower has analyzed its operations and the operations of its Subsidiaries that could be adversely affected by failure to be "Year 2000" compliant (that is, that computer applications, imbedded microchips and other systems will be able to perform date-sensitive functions prior to and after December 31, 1999). Based on its analysis, the computer systems and operations of the Borrower and its Subsidiaries are Year 2000 compliant, except to the extent that any failure therein or the cost to modify or repair its systems could not reasonably be expected to have a Material Adverse Effect.

SECTION 4.24. FEDERAL REGULATIONS. No part of the proceeds of any loan will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation G or Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. If requested by the Bank, the Borrower will furnish to the Bank a statement to the foregoing effect in conformity with the requirements of FR Form G-1 or FR Form U-1 referred to in said Regulation G or Regulation U, as the case may be.

SECTION 4.25. CASUALTIES; TAKING OF PROPERTIES. Since the dates of the financial statements of the Borrower and its Subsidiaries delivered to the Lender and described in Section 4.5, neither the business nor the assets or properties of the Borrower or any Subsidiary have been affected (to the extent it is reasonably likely to cause a Material Adverse Effect), as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of property or cancellation of contracts, permits or concessions by and domestic or foreign government or any agency thereof, riot, activities of armed forces or acts of God or of any public enemy.

SECTION 4.26. NOT A UTILITY. Neither the Borrower nor any of its Subsidiaries is an entity engaged in the State of Texas in the (i) generation, transmission or distribution and sale of electric power; (ii) transportation, distribution and sale through a local distribution system of natural or other gas for domestic, commercial, industrial or other use; (iii) provision of telephone or telegraph service to others; (iv) production, transmission or distribution and sale of steam or water; (v) operation of a railroad; or (vii) provision of sewer service to others.

ARTICLE V

AFFIRMATIVE COVENANT

As a material inducement to Lender to enter into this Agreement, the Borrower hereby covenants and agrees that from the date hereof until payment in full of the Obligations, the Borrower shall and shall cause each of its Subsidiaries to:

SECTION 5.1. FINANCIAL STATEMENTS AND OTHER INFORMATION. Promptly furnish to Lender copies of (i) such information regarding its business and affairs and financial condition as Lender may reasonably request, and (ii) without request, the following:

(a) as soon as available, but in any event not later than 90 days after the end of each fiscal year of the Borrower, a copy of the audited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such year and the related consolidated statements of income and changes in cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, by Hein + Associates LLP or other independent certified public accounting firm of recognized standing acceptable to the Lender;

(b) as soon as available, but in any event not later than 30 days after the end of each month, the unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such month and the related unaudited consolidated statements of income and changes in cash flows of the Borrower and its consolidated Subsidiaries for such month and for the period from the beginning of the most recent fiscal year to the end of such month, certified by the chief financial officer of the Borrower (subject to normal year-end audit adjustments);

(c) as soon as available, but in any event not later than 30 days after the end of each month, calculations of the Consolidated Current Ratio, Consolidated Tangible Net Worth, Debt Service Ratio and Consolidated Debt to Consolidated Tangible Net Worth Ratio of the Borrower for the periods required as set forth in Section 6.1 of this Agreement;

(d) as soon as available, but in any event not later than 30 days after the end of each month, a list of all accounts payable and accounts receivable of the Borrower and its consolidated Subsidiaries, and an aging of such accounts on the basis of 30-60-90 and over 90 days from date of invoice;

(e) promptly upon their becoming available, but in any event not later than five days after the same are sent, copies of all financial statements, reports, notices and proxy statements sent or made available generally by the Borrower to its shareholders, of all regular and periodic reports and all private placement memorandums and all registration statements and prospectuses, if any, filed by the Borrower with any securities exchange or with the Securities and Exchange Commission; and all press releases and other statements made available generally by the Borrower to the public concerning material developments in the business of the Borrower;

(f) immediately after becoming aware of the existence of, or any material change in the status of, any Environmental Complaint or any litigation which could have a Material Adverse Effect if determined adversely against the Borrower or any of its Subsidiaries, a written communication to Lender of such matter;

(g) immediately upon becoming aware of an Event of Default or the existence of any condition or event which constitutes, or with notice or lapse of time, or both, would constitute an Event of Default, a verbal notification to Lender specifying the nature and period of existence thereof and what action the Borrower is taking or proposes to take with respect thereto and, immediately thereafter, a written confirmation to Lender of such matters;

(h) immediately after becoming aware that any person has given notice or taken any action with respect to a claimed default under any indenture, mortgage, deed of trust, promissory note, loan agreement, note agreement, joint venture agreement or any other Material Agreement or other undertaking to which the Borrower or any Subsidiary is a party, a verbal notification to Lender specifying the notice given or action taken by such person and the nature of the claimed default and what action the Borrower is taking or proposes to take with respect thereto and, immediately thereafter, a written communication to Lender of such matters;

(i) within 30 days after the end of each month, the Borrowing Base Report required by Section 2.3(b)(i) of this Agreement; and

(j) within 30 days after the end of each month, a compliance certificate in the form attached hereto as Exhibit K, which shall be signed by the chief executive officer or principal financial officer of the Borrower.

SECTION 5.2. TAXES; OTHER CLAIMS. Pay and discharge all taxes, assessments and governmental charges or levies imposed upon the Borrower and its Subsidiaries, or upon or in respect of all or any part of the income, property or business of the Borrower and its Subsidiaries, all trade accounts payable in accordance with usual and customary business terms, and all claims for work, labor or materials, which, if unpaid, might become a Lien or charge upon any or all of the property of the Borrower or any of its Subsidiaries; provided however, the Borrower and its Subsidiaries shall not be required to pay any such tax, assessment, charge, levy, account payable or claim if (i) the validity, applicability or amount thereof is currently being contested in good faith by appropriate actions or proceedings diligently conducted which will prevent the forfeiture or sale of any property of the Borrower and its Subsidiaries or any material

interference with the use thereof by the Borrower or its Subsidiaries, and (ii) the Borrower shall have set aside on its consolidated financial statements reserves therefor deemed adequate under generally accepted accounting principles.

SECTION 5.3. COMPLIANCE AND MAINTENANCE. (i) Maintain its corporate existence, rights and franchises; (ii) observe and comply with all Requirements of Law, including, without limitation, Relevant Environmental Laws; and (iii) maintain the Collateral and all other equipment, properties and assets (and any properties, equipment and assets leased by or consigned to it or held under title retention or conditional sales contracts) in good and workable condition at all times and make all repairs, replacements, additions, betterments and improvements to its properties, equipment and assets as are needful and proper so that the business carried on in connection therewith may be conducted properly and efficiently at all times.

SECTION 5.4. MAINTENANCE OF INSURANCE. Maintain with financially sound and reputable insurers, insurance with respect to its properties and business against such liabilities, casualties, risks and contingencies and in such types and amounts as is customarily carried by companies engaged in the same or similar businesses and similarly situated. From time to time, upon request by Lender, the Borrower will furnish Lender with copies of certificates, binders and policies necessary to give Lender reasonable assurance of the existence of such coverage. Borrower agrees to promptly notify Lender of any termination or other material change in Borrower's insurance coverage and, if requested by Lender, to provide Lender with all information about the renewal of each policy at least 15 days prior to the expiration thereof. In the case of any fire, accident or other casualty causing loss or damage to any property of Borrower, the proceeds of such policies in excess of $50,000.00 shall, at Borrower's option, be used to (i) replace the lost or damaged property with similar property having a value at least equivalent to the lost or damaged property, or (ii) prepay the Term Promissory Note and the Revolving Line of Credit Promissory Note, in that order.

SECTION 5.5. REIMBURSEMENT OF FEES AND EXPENSES. Pay all reasonable fees and expenses incurred by Lender and its designated representatives in connection with this Agreement, all renewals hereof, the other Loan Papers or other transactions pursuant hereto or to the other Loan Papers, whether the services provided hereunder or thereunder are provided directly by Lender or by a third party selected by Lender, as well as all costs of filing and recordation, all reasonable legal and accounting fees, all costs associated with enforcing any of Lender's Rights under the Loan Papers, including, without limitation, costs of repossessing, storing, transporting, preserving and insuring any Collateral that Borrower or any of its Subsidiaries may pledge to Lender, all court costs associated with enforcing or defending Lender's Rights against the Borrower, its Subsidiaries or any third party challenging said Rights and any other cost or expense incurred by Lender or its designated representatives in connection herewith or with the other Loan Papers, together with interest at a rate per annum 2% above the Prime Rate on each such amount commencing on the date notice of such expenditure is given to the Borrower by Lender until the date it is repaid to Lender.

SECTION 5.6. INDEMNIFICATION. Indemnify, save and hold harmless the Lender and its Affiliates, directors, officers, agents, attorneys and employees (collectively, the "Indemnitees") from and against: (a) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any person (other than the Borrower) if the claim, demand, action or cause of action directly or indirectly relates to a claim, demand, action or cause of action that such person asserts or may assert against the Borrower, any Affiliate of the Borrower or any officer, director or shareholder of the Borrower; (b) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any person (other than the Borrower) if the claim, demand, action or cause of action arises out of or relates to the loans made by Lender to the Borrower under the Notes and this Agreement, the use or contemplated use of proceeds of such loans or the relationship of the Borrower and the Lender under this Agreement; (c) any administrative or investigative proceeding by any Governmental Authority arising out of or related to a claim, demand, action or cause of action described in clause (a) or (b) above; and (d) any and all liabilities, losses, costs or expenses (including reasonable attorneys' fees and disbursements) that any Indemnitee suffers or incurs as a result of any of the foregoing; provided, that no Indemnitee shall be entitled to indemnification for any liability, loss, cost or expense caused by its own gross negligence or willful misconduct. If any claim, demand, action or cause of action is asserted against any Indemnitee and such Indemnitee intends to claim indemnification from the Borrower under this Section 5.6, such Indemnitee shall promptly notify the Borrower, but the failure to so promptly notify the Borrower shall not affect the obligations of the Borrower under this Section 5.6 unless such failure materially prejudices the Borrower's right to participate, or the Borrower's rights, if any, in the contest of such claim, demand, action or cause of action, as hereinafter provided. Each Indemnitee may, and if requested by the Borrower in writing shall, in good faith contest the validity, applicability and amount of such claim, demand, action or cause of action with counsel selected by such Indemnitee and reasonably acceptable to the Borrower, and shall permit the Borrower to participate in such contest. Any Indemnitee that proposes to settle or compromise any claim or proceeding for which the Borrower may be liable for payment of indemnity hereunder shall give the Borrower written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding and shall obtain the Borrower's prior written consent, which consent shall not be unreasonably withheld. In connection with any claim, demand, action or cause of action covered by this Section 5.6 against more than one Indemnitee, all such Indemnitees shall be represented by the same legal counsel selected by the Indemnitees and reasonably acceptable to the Borrower; provided, that if such legal counsel determines in good faith and advises the Borrower in writing that representing all such Indemnitees would or could result in a conflict of interest under legal requirements or ethical principles applicable to such legal counsel or that a defense or counterclaim is available to an Indemnitee that is not available to all such Indemnitees, then to the extent reasonably necessary to avoid such a conflict of interest or to permit unqualified assertion of such a defense or counterclaim, each Indemnitee shall be entitled to separate representation by legal counsel selected by that Indemnitee and reasonably acceptable to the Borrower. Any obligation or liability of the Borrower to any Indemnitee under this Section 5.6 shall survive the expiration or termination of this Agreement and the repayment of the Loans and the payment of all other Obligations owing to the Lender for the statute of limitations period applicable to such claim or contest.

SECTION 5.7. FURTHER ASSURANCES. Use its best efforts to cure any defects in the execution and delivery of any of the Loan Papers to which it is a party and in any other instrument or document referred to or mentioned herein, and immediately execute and deliver to Lender, upon Lender's request, all such other and further instruments as may be required or desired by Lender from time to time in compliance with or accomplishment of the covenants and agreements of the Borrower made herein and in the other Loan Papers.

SECTION 5.8. INSPECTION AND VISITATION. Permit any officer, employee, agent or representative of Lender to visit and inspect any of the properties and assets of the Borrower and its Subsidiaries, examine all of its books, records and accounts, and take copies and extracts therefrom, all at such reasonable times and during normal business hours as Lender may request and, further, the Borrower shall allow and does hereby grant Lender the right to contact any employees, associates, Affiliates, officers, accountants and auditors of Borrower and its Subsidiaries as Lender may desire, and upon the occurrence and during the continuance of an Event of Default, Lender shall have the right to contact the customers of Borrower and its Subsidiaries.

SECTION 5.9. COMPLIANCE WITH LAWS. Comply with all Requirements of Law, the violation of which could have a Material Adverse Effect.

SECTION 5.10. ACCOUNTS AND RECORDS. Keep books of record and account in which full, true and correct entries will be made of all dealings or transactions in relation to its business and activities, in accordance with generally accepted accounting principles consistently applied, except only for changes in accounting principles or practices with which the Borrower's independent public accountants concur.

SECTION 5.11. ENVIRONMENTAL COMPLAINTS. Promptly give notice to Lender (a) of any Environmental Complaint affecting the Borrower or any of its Subsidiaries, any property owned, operated or used by the Borrower or any of its Subsidiaries, or any part thereof or the operations of the Borrower or any of its Subsidiaries, or any other person on or in connection with such property or any part thereof (including receipt by the Borrower or any of its Subsidiaries of any notice of (i) the happening of any event involving the use, spill, release, leak, seepage, discharge or clean-up of any Hazardous Substance or (ii) any complaint, order, citation or notice with regard to air emissions, water discharges, or any other environmental, health or safety matter affecting the Borrower or any of its Subsidiaries from any person or entity (including without limitation the United States Environmental Protection Agency)), and (b) of any notice from any person of (i) any violation or alleged violation of any Relevant Environmental Law relating to any such property or any part thereof or any activity at any time conducted on any such property, (ii) the occurrence of any release, spill or discharge in a quantity that is reportable under any Relevant Environmental Law or (iii) the commencement of any clean-up pursuant to or in accordance with any Relevant Environmental Law of any Hazardous Substance on or about any such property or any part thereof.

ARTICLE VI
NEGATIVE COVENANTS

As a material inducement to Lender to enter into this Agreement, the Borrower covenants and agrees that from the date hereof until payment in full of the Obligations, the Borrower shall not, and (except with respect to Section 6.1) shall not permit any of its Subsidiaries to, directly or indirectly:

SECTION 6.1. FINANCIAL COVENANTS.

(a) Consolidated Current Ratio. Permit the Consolidated Current Ratio, as defined herein and calculated pursuant to Exhibit L hereto, to be less than .80 to 1.0 as of the end of each month through and including December 31, 1999, or less than 1.0 to 1.0 as of the end of each month after December 31, 1999.

(b) Consolidated Tangible Net Worth. Permit the Consolidated Tangible Net Worth, as defined herein and calculated pursuant to Exhibit M hereto, to be less than $2,000,000.00 as of the end of each month through and including December 31, 1999, or less than $2,500,000.00 as of the end of each month after December 31, 1999.

(c) Debt Service Ratio. Permit the ratio of (i) Consolidated Cash Flow to (ii) Consolidated Fixed Charges, as such terms are defined herein and as calculated pursuant to Exhibit N hereto, to be less than 1.25 to 1.00 for each "rolling" three-month period ending on the date the calculation of such ratio is made, with the first such calculation to be made and dated as of September 30, 1999, followed by a similar calculation at the end of each succeeding month. As an example, for the calculation to be made on September 30, 1999, such ratio for the months of July, August and September shall not be less than 1.25 to 1.00 for such three-month period; such ratio for the three-month period ended October 31, 1999 shall not be less than 1.25 to 1.00 for the months of August, September and October; and so forth.

(d) Consolidated Debt to Consolidated Tangible Net Worth Ratio. Permit the ratio of (i) Consolidated Debt to (ii) Consolidated Tangible Net Worth, as such terms are defined herein and calculated pursuant to Exhibit O hereof, to be more than 2.00 to 1.00 as of the end of each month.

SECTION 6.2. DEBT. Create, assume, incur or have outstanding any Debt, except:

(a) Debt of the Borrower and its Subsidiaries to the Lender;

(b) Debt existing on the date of this Agreement which is set forth in the financial statements referred to in Section 4.5 of this Agreement (excluding, however, the Debt described in Schedule I hereto which shall be repaid in its entirety on the day the initial Advance is made to Borrower under the Term Promissory Note), but not any increases thereof;

(c) obligations for the payment of rent or hire of property under leases or lease agreements which would not cause the aggregate amount of all payments made by the Borrower and its Subsidiaries pursuant to such leases or lease agreements to exceed $200,000.00 during any calendar year; and

(d) additional Debt of the Borrower and its Subsidiaries not to exceed $100,000.00 in the aggregate principal amount at any one time outstanding.

SECTION 6.3. ERISA COMPLIANCE.

(a) Engage in any "prohibited transaction" as such term is defined in Section 4975 of the Internal Revenue Code of 1986, as amended;

(b) incur any "accumulated funding deficiency" as such term is defined in Section 302 of ERISA; or

(c) terminate any such plan in a manner which could result in the imposition of a Lien on the property of Borrower or any Subsidiary pursuant to Section 4068 of ERISA.

SECTION 6.4. AMENDMENT OF ORGANIZATIONAL DOCUMENTS. Amend or otherwise modify its articles of incorporation, regulations, articles of organization or otherwise change its corporate or limited liability company structure in any manner.

SECTION 6.5. FISCAL YEAR. Permit its fiscal year to end on a day other than the last day of December of each year.

SECTION 6.6. NATURE OF BUSINESS. Make any significant or substantial change in the nature of its business as being conducted on the date of this Agreement.

SECTION 6.7. DISPOSITION OF COLLATERAL. Sell, transfer, lease, exchange, alienate or otherwise dispose of (whether in one transaction or in a series of transactions) all or any part of the Collateral, except as permitted by Section 6.12.

SECTION 6.8. LIENS. Create, incur, assume or permit to exist any Lien upon any of its properties, assets or revenues, whether now owned or hereafter acquired, or agree to do any of the foregoing, except:

(a) Bank Liens;

(b) Liens to secure payments of workmen's compensation, unemployment insurance, old age pensions or other social security;

(c) deposits or pledges to secure performance of bids, tenders, contracts (other than contracts for the payment of money), leases, public or statutory obligations, surety or appeal bonds, or other deposits or pledges for purposes of like general nature in the ordinary course of business;

(d) Liens for taxes, assessments or other governmental charges or levies which are not delinquent or which are in good faith being contested by appropriate proceedings; provided, however, this exception shall not allow any Lien imposed by the U.S. Government for failure to pay income, payroll, FICA or similar taxes, other than any such Lien where (i) the validity, applicability or amount thereof is being contested in good faith by appropriate proceedings which will prevent the forfeiture or sale of any property of the Borrower or any Subsidiary or any material interference with the use thereof by the Borrower or any Subsidiary, and (ii) the Borrower shall have set aside on its books reserves appropriate within generally accepted accounting principles with respect thereto;

(e) vendors', operators', materialmen's, mechanics', carriers', workmen's, repairmen's or other like Liens arising by operation of law in the ordinary course of business and securing obligations less than 90 days from the date of invoice, and on which no suit to foreclose has been filed, or which are in good faith being contested by appropriate proceedings;

(f) Liens created by or resulting from any litigation or legal proceeding which is being contested in good faith by appropriate proceedings; and

(g) Liens permitted by the other Loan Papers.

SECTION 6.9. DIVIDENDS, REDEMPTIONS AND OTHER PAYMENTS. Declare or pay any dividends (except dividends payable solely in its own capital stock or limited liability company membership interests, as the case may be) on, or redeem, retire, purchase or otherwise acquire for value, any shares of any class of its respective shares of capital stock or limited liability company membership interests, as the case may be, now or hereafter outstanding, or return any capital to its shareholders or members, as the case may be, or make any other distribution in respect thereof, whether in cash or property or in obligations of the Borrower or any Subsidiary.

SECTION 6.10. LIMITATION ON FUNDAMENTAL CHANGES. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of (whether in one transaction or in a series of related transactions), all or substantially all of its property, business or assets (whether now owned or hereafter acquired), or make any material change in its present method of conducting business.

SECTION 6.11. TRANSACTIONS WITH AFFILIATES. Enter into any transaction (including, but not limited to, the sale or exchange of property or the rendering of services) with any of its Affiliates, other than in the ordinary course of business and upon terms no less favorable than could be obtained in an arm's-length transaction with a person that was not an Affiliate.

SECTION 6.12. DISPOSITION OF ASSETS. Sell, convey, transfer, lease, exchange, alienate or otherwise dispose of any of its respective property or assets, except, to the extent not otherwise prohibited under the other Loan Papers:

(a) equipment which is worthless or obsolete or which is replaced by equipment of equal suitability and value; and

(b) inventory and equipment which is sold or leased in the ordinary course of business.

SECTION 6.13. LIMITATION ON NEGATIVE PLEDGE CLAUSES. Enter into with any person any agreement, other than (a) this Agreement and (b) the other Loan Papers, which prohibits or limits the ability of the Borrower or any of its Subsidiaries to create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired.

SECTION 6.14. TERMS OF OTHER AGREEMENTS. Become a party to any agreement (or any amendment, supplement, extension or other modification thereto or thereof) which, in any manner (i) violates, conflicts with or creates a breach of any of the terms or provisions of this Agreement or any of the other Loan Papers, (ii) provides for the granting or conveyance to any person other than Lender of Liens on or affecting the Collateral, or (iii) restricts the Borrower's or any of its Subsidiaries (a) rights of ownership, possession or operation of all or any part of the Collateral or (b) rights or ability to direct the use or disposition of all or any part of the Collateral or (c) which requires the consent of any person (other than Lender) to use or dispose of any of the Collateral for any purpose or to act or refrain from acting with respect thereto.

ARTICLE VII
DEFAULT AND REMEDIES

SECTION 7.1. EVENTS OF DEFAULT. If any one or more of the following shall occur and shall not have been remedied in the period, if any, provided for, an "Event of Default" shall be deemed to have occurred hereunder and with respect to all of the Obligations, unless waived in writing by Lender:

(a) default shall be made in the payment when due of any installment of principal or interest on the Notes or any other Obligations;

(b) any representation or warranty made by the Borrower herein or in any of the other Loan Papers or in any certificate, document or financial or other statement furnished to Lender under or in connection with this Agreement or any other Loan Paper shall be or shall prove to have been incorrect or untrue or misleading in any material respect on or as of the date made or deemed made and shall continue unremedied for a period of 30 days after the earlier of (i) the Borrower becoming aware of such default or (ii) the Lender giving notice thereof to the Borrower;

(c) default shall be made by the Borrower or any Subsidiary in the due performance or observance of any covenant, condition or agreement contained in any of the Loan Papers to which it is a party and such default shall continue unremedied for a period of 30 days after the earlier of (i) Borrower becoming aware of such default or (ii) the Lender giving notice thereof to the Borrower;

(d) Borrower or any Subsidiary shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of itself or of all or a substantial part of its assets; (ii) be unable, or admit in writing its inability, or fail to confirm its ability (when requested to do so by Lender) to pay its debts as they become due; (iii) make a general assignment for the benefit of creditors; (iv) be adjudicated a bankrupt or insolvent or file

a voluntary petition in bankruptcy; (v) file a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy or insolvency law; (vi) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against it in any bankruptcy, reorganization or insolvency proceedings; or (vii) take any action for the purpose of effecting any of the foregoing;

(e) an order, judgment or decree shall be entered by any court of competent jurisdiction approving a petition seeking reorganization of the Borrower or any of its Subsidiaries or appointing a receiver, trustee or liquidator of the Borrower or any of its Subsidiaries or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed in effect for any period of 30 consecutive days;

(f) the failure of the Borrower or any of its Subsidiaries to have discharged within a period of 30 days after the commencement thereof any attachment, sequestration or similar proceeding against any of its properties or assets having a value of $100,000 or more;

(g) any acceleration, notice of default, default, filing of suit or notice of breach by any lender, lessor, creditor or other party to any Material Agreement to which the Borrower or any of its Subsidiaries is a party, or to which its properties or assets are subject;

(h) the occurrence of a Material Adverse Effect with respect to Borrower or any of its Subsidiaries;

(i) the occurrence of a Change of Control; or

(j) final judgment or judgments shall be entered against the Borrower or any of its Subsidiaries involving in the aggregate a liability (not paid or fully covered by insurance or not otherwise covered by indemnity agreements acceptable to Lender in its sole discretion) of $50,000.00 or more, and such judgment or judgments shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof.

SECTION 7.2. REMEDIES.

(a) Upon the occurrence of any Event of Default described in Section 7.1(d) or Section 7.1(e) hereof, the lending obligations, if any, of Lender hereunder shall immediately terminate, and the entire principal amount of all Obligations then outstanding together with interest then accrued and unpaid thereon shall become immediately due and payable, all without demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, notice of intention to accelerate maturity or notice of acceleration of maturity, or any other notice of default of any kind, all of which are hereby expressly waived by the Borrower.

(b) Upon the occurrence and at any time during the continuance of any other Event of Default specified in Section 7.1 hereof, Lender may, by written notice to the Borrower, (i) declare the entire principal amount of all Obligations then outstanding, together with interest then accrued and unpaid thereon, to be immediately due and payable without demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, notice of intention to accelerate maturity or notice of acceleration of maturity, or any other notice of default of any kind, all of which are hereby expressly waived by the Borrower, and (ii) terminate the lending obligations, if any, of Lender hereunder unless and until Lender shall reinstate same in writing.

SECTION 7.3. RIGHT OF SETOFF. Upon the occurrence and during the continuance of any Event of Default, or if the Borrower becomes insolvent, however, evidenced, Lender is hereby authorized at any time and from time to time, without prior notice to Borrower (any such notice being expressly waived by the Borrower), to setoff and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by Lender to or for the credit or the account of Borrower against any and all of the Obligations, irrespective of whether or not Lender shall have made any demand under this Agreement or the Notes and although such Obligations may be unmatured. Lender agrees promptly to notify Borrower after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application. The rights of Lender under this Section 7.3 are in addition to other rights and remedies (including, without limitation, other rights of setoff) which Lender may have.

SECTION 7.4. DELEGATION OF DUTIES AND RIGHTS. Lender may perform any of its duties or exercise any of its Rights under the Loan Papers by or through its officers, directors, employees, attorneys, agents or other representatives.

SECTION 7.5. LENDER NOT IN CONTROL. None of the covenants or other provisions contained in this Agreement or the other Loan Papers shall, or shall be deemed to, give Lender the Right to exercise control over the affairs or management of the Borrower.

SECTION 7.6. WAIVERS BY LENDER. The acceptance by Lender at any time and from time to time of part payment on the Obligations shall not be deemed to be a waiver of any Event of Default then existing. No waiver by Lender of any Event of Default shall be deemed to be a waiver of any other then existing or subsequent Event of Default. No delay or omission by Lender in exercising any Right under this Agreement or any of the other Loan Papers shall impair such Right or be construed as a waiver thereof or any acquiescence therein.

SECTION 7.7. CUMULATIVE RIGHTS. All Rights available to Lender under this Agreement and the other Loan Papers are cumulative of, and in addition to, all other Rights available to Lender at law or in equity. The exercise or partial exercise of any such Right shall not preclude the exercise of any other Right under the Loan Papers or otherwise.

SECTION 7.8. EXPENDITURES BY LENDER. All court costs, reasonable attorneys' fees, other costs of collection, and other sums spent by Lender pursuant to the exercise of any Right provided herein shall be payable to Lender on demand, shall become part of the Obligations, and shall bear interest at a rate per annum 2% above the Prime Rate on each such amount

commencing on the date notice of such claims, judgments, costs, charges or attorneys' fees is given to Borrower by Lender until the date paid by Borrower.

ARTICLE VIII
MISCELLANEOUS

SECTION 8.1. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties of the Borrower made herein, in the other Loan Papers to which it is a party and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Notes.

SECTION 8.2. COMMUNICATIONS. Unless specifically otherwise provided, whenever any Loan Paper requires or permits any consent, approval, notice, request, or demand from one party to another, such communication must be in writing (which may be by cable, telex, telecopy, fax or other similar means of remote facsimile transmission) to be effective and shall be deemed to have been given on the day actually delivered or, if mailed, on the third day (or if such third day is not a Business Day, then on the next succeeding Business Day) after it is enclosed in an envelope, addressed to the party to be notified at the address stated below, properly stamped, sealed, and deposited in the appropriate official postal service. Until changed by notice pursuant hereto, the address of each party for purposes of this Agreement is as follows:

BORROWER: Natural Gas Services Group, Inc.
710 Buffalo Street, Suite 201
Corpus Christi, Texas 78401
Attention: Earl Wait
Facsimile Number for Notice: (361) 882-5144

or

LENDER: Western National Bank
500 W. Wall, Suite 100
Midland, Texas 79701
Attention: Scott A. Lovett
Facsimile Number for Notice: (915) 570-9567

SECTION 8.3. BINDING ON SUCCESSORS. All covenants and agreements herein contained by or on behalf of the Borrower shall bind the Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns; provided, however, that Borrower may not assign its Rights or obligations hereunder without the prior written consent of Lender. If the Lender sells participations in or assigns the Notes or other Obligations owing to the Lender to other lenders (which the Lender may undertake to do in its sole discretion), each of such other lenders shall have the rights to setoff against such Obligations and similar rights or Liens to the same extent as may be available to the Lender.

SECTION 8.4. GOVERNING LAW. THIS AGREEMENT AND THE OTHER LOAN PAPERS SHALL BE DEEMED TO BE CONTRACTS MADE UNDER, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF TEXAS; PROVIDED, HOWEVER, THAT THE RIGHTS PROVIDED IN ANY LOAN PAPER WITH REFERENCE TO PROPERTIES COVERED THEREBY THAT ARE SITUATED IN OTHER STATES MAY BE GOVERNED BY THE LAWS OF SUCH OTHER STATES, AND PROVIDED, FURTHER, THAT THE LAWS PERTAINING TO THE ALLOWABLE RATES OF INTEREST MAY, FROM TIME TO TIME, BE GOVERNED BY THE LAWS OF THE UNITED STATES OF AMERICA.

SECTION 8.5. USURY SAVINGS CLAUSE. It is the intention of the parties hereto that Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated hereby would be usurious as to Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to Lender notwithstanding the other provisions hereof), then, in that event, notwithstanding anything to the contrary in the Notes, this Agreement or any other Loan Paper or other agreement entered into in connection with or as security for the Notes, (i) the aggregate of all consideration which is contracted for, taken, reserved, charged or received by Lender under the Notes, this Agreement or any other Loan Paper or agreement entered into in connection with or as security for the Notes shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be credited by Lender on the principal amount of the Obligations to Lender (or, to the extent that the principal amount of the Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower); and (ii) in the event that the maturity of the Notes is accelerated by reason of an Event of Default under this Agreement or otherwise, or in the event of any prepayment, then such consideration that constitutes interest under law applicable to Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in the Notes, this Agreement or otherwise shall be cancelled automatically by Lender as of the date of such acceleration of prepayment and, if theretofore paid, shall be credited by Lender on the principal amount of the Obligations (or, to the extent that the principal amount of such Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower).

To the extent that Texas Finance Code Section 303.201, as supplemented by Article 5069-ID.002 of the Texas Revised Civil Statutes (Texas Credit Title) is relevant to Lender for the purposes of determining the Highest Lawful Rate, the applicable rate ceiling under such provisions shall be determined by the indicated (weekly) rate ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law. Notwithstanding anything to the contrary contained herein or in any of the other Loan Papers, it is not the intention of the Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

SECTION 8.6. SEVERABILITY. If one or more of the provisions contained herein or in the Notes or any of the other Loan Papers shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, the Notes or any of the other Loan Papers.

SECTION 8.7. NON-WAIVER. No Advance hereunder shall constitute a waiver of the representations, warranties, conditions or agreements of Borrower or of any of the conditions of Lender's obligations to make further Advances. If Borrower is unable to satisfy any such representation, warranty, condition or agreement, no such Advance shall have the effect of precluding Lender from thereafter declaring such inability to be an Event of Default as hereinabove provided.

SECTION 8.8. COUNTERPARTS. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

SECTION 8.9. AMENDMENTS AND WAIVERS. Neither this Agreement, the Notes nor any of the other Loan Papers may be amended or waived orally, but only by an instrument in writing signed by Borrower and Lender (and/or any other person which is a party to the Loan Paper being amended or waived).

SECTION 8.10. TERMS AND HEADINGS. Terms used herein but not defined shall have the meanings accorded them under generally accepted accounting principles, or the Texas Uniform Commercial Code, as appropriate. All headings used herein are for convenience and reference purposes only and shall not affect the substance of this Agreement.

SECTION 8.11. CONFLICTS. If there is ever a conflict between any of the terms, conditions, representations, warranties or covenants contained in this Agreement and the terms, conditions, representations, warranties or covenants in any of the other Loan Papers executed by the Borrower, the provisions of this Agreement shall govern and control; provided, however, the fact that any term, condition, representation, warranty or covenant contained in such other Loan Paper is not contained herein shall not be, or be deemed to be, a conflict.

SECTION 8.12. ENVIRONMENTAL INDEMNITY. Borrower hereby agrees to defend, indemnify, pay and hold Lender and its officers, directors, employees and agents (each, an "Indemnitee") harmless from and against, and shall reimburse each Indemnitee for, any and all loss, claim, liability, damages, injunctive relief, penalty, judgment, suit, obligation, injury to persons, property or natural resources, cost, expense or disbursement of any kind or nature whatsoever including, without limitation, attorneys' fees and costs attributable to any action or cause of action (whether or not each Indemnitee shall be designated a party thereto), arising, directly or indirectly, in whole or in part, out of the release or presence, or alleged release or alleged presence, or any Hazardous Substance, at, on, or under, surrounding or in connection with any of the real property owned or leased by Borrower ("Premises"), or any portion thereof, whether foreseeable or unforeseeable, regardless of the source of such release and regardless of when such release occurred or such presence is discovered. The foregoing indemnity includes, without limitation, all cost in law or in equity of removal, remediation of any kind and disposal of any such Hazardous Substance, all costs of determining whether the Premises are in compliance, and causing the Premises to be in compliance, with all Requirements of Law relating to Hazardous Substances, all costs associated with claims for damages to persons, property or natural resources, and each Indemnitee's consultants' fees (including attorneys' fees and costs) and court costs. The obligations of Borrower under this indemnity shall survive the repayment of the Notes and shall be independent of the obligations of Borrower to the

Indemnitees in connection with the Notes. The rights of each Indemnitee under this indemnity shall be in addition to any other rights and remedies of such Indemnitee under any guaranty or any document or instrument now or hereafter executed in connection with this Agreement, the Notes, the Loan Papers or at law or in equity.

SECTION 8.13. RENEWAL, EXTENSION OR REARRANGEMENT. All provisions of this Agreement and any of the other Loan Papers relating to the Notes or any other Obligations shall apply with equal force and effect to each and all promissory notes hereafter executed which in whole or in part represent a renewal, extension for any period, increase or rearrangement of any part of the Obligations originally represented by the Notes or any part of such other Obligations.

SECTION 8.14. DIRECT BENEFIT. The loans hereunder and any additional loans are for the direct benefit of each of the Borrower and its Subsidiaries and the loans hereunder will be used by them for general working capital purposes. The Borrower and its Subsidiaries are engaged as an integrated group in the manufacturing, leasing and financing of industrial equipment and systems for the oil and gas industry and other industries, and any benefits to the Borrower or any of its Subsidiaries are a benefit to all of them, both directly or indirectly, inasmuch as the successful operation and condition of the Borrower and its Subsidiaries is dependent upon the continued successful performance of the functions of the integrated group as a whole.

SECTION 8.15. WAIVERS. No course of dealing on the part of the Lender, its officers, employees, consultants or agents, nor any failure or delay by the Lender with respect to exercising any right, power or privilege of the Lender under this Agreement, the Notes or any other Loan paper shall operate as a waiver thereof, except as otherwise provided in Section 8.9 hereof.

SECTION 8.16. CUMULATIVE RIGHTS. Rights and remedies of the Lender under this Agreement, the Notes and the other Loan Papers shall be cumulative, and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

SECTION 8.17. GOVERNMENTAL REGULATION. Anything contained herein to the contrary notwithstanding, the Lender shall not be obligated to extend credit to the Borrower in an amount in violation of any limitation or prohibition provided by any applicable statute or regulation.

SECTION 8.18. EXHIBITS. The exhibits, annexes and schedules attached to this Agreement are incorporated herein and shall be considered a part of this Agreement for the purposes stated herein, except that in the event of any conflict between any of the provisions of such exhibits, annexes and schedules and the provisions of this Agreement, the provisions of this Agreement shall prevail. All capitalized terms used in such exhibits, annexes and schedules, but not defined therein, shall have the same meanings as given to such terms in this Agreement.

THIS AGREEMENT AND THE OTHER LOAN PAPERS REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.

EXECUTED EFFECTIVE as of the date first above written.

BORROWER:

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Burnace J. Boles, Jr.

Burnace J. Boles, Jr., President

LENDER:

WESTERN NATIONAL BANK

By: /s/ Scott A. Lovett

Scott A. Lovett, Executive Vice President

EXHIBIT A

TERM PROMISSORY NOTE

EXHIBIT B

$750,000.00 September 15, 1999

REVOLVING LINE OF CREDIT PROMISSORY NOTE

REVOLVING LINE OF CREDIT PROMISSORY NOTE

FOR VALUE RECEIVED, in the manner, on the dates and in the amounts herein stipulated, NATURAL GAS SERVICES GROUP, INC., a Texas corporation ("Borrower"), hereby promises and agrees to pay to the order of WESTERN NATIONAL BANK, a national banking association ("Lender"), in Midland, Midland County, Texas, the principal sum of Seven Hundred Fifty Thousand and No/100 Dollars ($750,000.00) or, if less, the aggregate unpaid principal amount outstanding hereunder, in lawful money of the United States of America, which shall be legal tender in payment of all debts and dues, public and private, at the time of payment, together with interest on the unpaid principal amount hereof from time to time outstanding until maturity at a rate per annum which shall from day to day be equal to the lesser of (a) one percent (1.00%) over the Prime Rate (the "Established Rate") in effect from day to day (calculated on the basis of actual days elapsed, but computed as if each calendar year consisted of 360 days) or (b) the Highest Lawful Rate. Each change in the rate of interest charged under this Revolving Line of Credit Promissory Note (this "Note") shall, subject to the terms hereof, become effective, without notice to Borrower, upon the effective date of each change in the Prime Rate or the Highest Lawful Rate, as the case may be. Notwithstanding the foregoing, if at any time the Established Rate exceeds the Highest Lawful Rate, the rate of interest on this Note shall be limited to the Highest Lawful Rate, but any subsequent reductions in the Established Rate shall not reduce the rate of interest hereon below the Highest Lawful Rate until the total amount of interest accrued hereon approximately equals the amount of interest which would have accrued hereon if the Established Rate had at all times been in effect. In the event that at maturity (stated or by acceleration), or at final payment of this Note, the total amount of interest paid or accrued hereon is less than the amount of interest which would have accrued if the Established Rate had at all times been in effect, then, at such time and to the extent permitted by applicable laws, Borrower shall pay to Lender an amount equal to the difference between (a) the lesser of the amount of interest which would have accrued if the Established Rate had at all times been in effect or the amount of interest which would have accrued if the Highest Lawful Rate had at all times been in effect, and (b) the amount of interest actually paid or accrued on this Note. Interest calculations may be made ten days prior to any interest installment due date under this Note, in which event, if there is an adjustment in the interest rate in accordance with the terms hereof during such ten-day period, then Borrower shall subsequently, on demand, pay to Lender any underpayment, or Lender shall pay to Borrower, any overpayment, as the case may be, as a result of any adjustment during such ten-day period.

This Note is the Revolving Line of Credit Promissory Note referred to in the Loan Agreement, dated as of the date hereof (as the same may be amended, supplemented or otherwise modified from time to time, the "Loan Agreement"), by and between Borrower and Lender, and is subject to the terms and conditions thereof. Reference is made to the Loan Agreement for provisions for the disbursement of funds hereunder and for a further statement of the rights, remedies, powers, privileges, benefits, duties and obligations of Borrower and Lender under the Loan Agreement and this Note. Terms used herein which are defined in the Loan Agreement shall have such defined meanings unless otherwise defined herein. The holder of this Note shall be entitled to the benefits of the Loan Agreement.

Advances and Subsequent Advances under this Note shall be made in accordance with the provisions of the Loan Agreement. Subject to the terms hereof and of the Loan Agreement, Borrower may borrow, repay and reborrow at any time and from time to time under this Note; provided, however, that the principal sum outstanding hereunder at any one time shall never exceed the lesser of (i) $750,000.00 or (ii) the Borrowing Base then in effect.

Interest on the outstanding principal balance of this Note shall be due and payable monthly on the first day of each month, commencing October 15, 1999. The then outstanding principal balance of this Note and all accrued and unpaid interest shall be due and payable on September 15, 2001. All of the past due principal and accrued interest hereunder shall, at the option of Lender, bear interest from maturity (stated or by acceleration) until paid at a rate per annum equal to the Highest Lawful Rate.

This Note is secured as provided in the Loan Agreement and in the other Loan Papers, to which reference is hereby made for a description of the properties and assets in which a lien and security interest has been granted, the nature and extent of the security, the terms and conditions upon which the liens and security interests were granted and the rights of the holder of this Note with respect thereto.

Time is of the essence of this Note. Upon the occurrence of any one or more of the Events of Default specified in the Loan Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable, all as provided therein.

Borrower and any and all co-makers, endorsers, guarantors and sureties severally waive notice (including, but not limited to, notice of protest, notice of dishonor, notice of intent to accelerate and notice of acceleration), demand, presentment for payment, protest, diligence in collecting or bringing suit and the filing of suit for the purpose of fixing liability, and consent that the time of payment hereof may be extended and re-extended from time to time without notice to them or any of them, and each agrees that his, her or its liability on or with respect to this Note shall not be affected, diminished or impaired by any (a) release of any security at any time existing for this Note, (b) substitution for any security at any time existing for this Note, or (c) failure to perfect (or to maintain perfection of) any lien on or security interest in any such security, in each case in whole or in part, with or without notice, before or after maturity.

It is the intention of Borrower and Lender that Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated by the Loan Agreement and this Note would be usurious as to Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to Lender notwithstanding the other provisions of the Loan Agreement and this Note), then, in that event, notwithstanding anything to the contrary in this Note, the Loan Agreement or any other Loan Paper or other agreement entered into in connection with or as security for this Note, (i) the aggregate of all consideration which is contracted for, taken, reserved, charged or received by Lender under this Note, the Loan Agreement or any other Loan Paper or agreement entered into in connection with or as security for this Note shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be credited by Lender on the principal amount of the Obligations to Lender (or, to the extent that the principal amount of the Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower); and (ii) in the event that the maturity of this Note is accelerated by reason of an Event of Default under the Loan Agreement or otherwise, or in the event of any prepayment, then such consideration that constitutes interest under law applicable to Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in this Note, the Loan Agreement or otherwise shall be cancelled automatically by Lender as of the date of such acceleration of prepayment and, if theretofore paid, shall be credited by Lender on the principal amount of the Obligations (or, to the extent that the principal amount of such Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower).

To the extent that Texas Finance Code Section 303.201, as supplemented by Article 5069-ID.002 of the Texas Revised Civil Statutes (Texas Credit Title) is relevant to Lender for the purposes of determining the Highest Lawful Rate, the applicable rate ceiling under such provisions shall be determined by the indicated (weekly) rate ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law. Notwithstanding anything to the contrary contained herein or in any of the other Loan Papers, it is not the intention of the Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

This Note is performable and payable in the County of Midland, State of Texas, and shall be construed in accordance with, and governed by, the laws of the State of Texas; provided, however, that the laws pertaining to allowable rates of interest may, from time to time, be governed by the laws of the United States of America.

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Burnace J. Boles, Jr.
Burnace J. Boles, Jr., President

EXHIBIT C

SUBSEQUENT ADVANCE UNDER REVOLVING LINE OF CREDIT PROMISSORY NOTE - WRITTEN NOTICE OF BORROWING

EXHIBIT D

BORROWING BASE REPORT

EXHIBIT E

STOCK PLEDGE AGREEMENTS

EXHIBIT F

LIMITED LIABILITY COMPANY PLEDGE AGREEMENTS

EXHIBIT G

SECURITY AGREEMENT

EXHIBIT H

OFFICER'S CERTIFICATE

EXHIBIT I

GUARANTY AGREEMENT

EXHIBIT J

LIMITED GUARANTY AGREEMENT

EXHIBIT K

COMPLIANCE CERTIFICATE

EXHIBIT L

CONSOLIDATED CURRENT RATIO

EXHIBIT M

CONSOLIDATED TANGIBLE NET WORTH

EXHIBIT N

DEBT SERVICE RATIO

EXHIBIT O

CONSOLIDATED TANGIBLE NET WORTH

SCHEDULE I

JURISDICTION OF ORGANIZATION AND EACH OTHER JURISDICTION IN WHICH THE BORROWER AND ITS SUBSIDIARIES ARE QUALIFIED TO DO BUSINESS

SCHEDULE II

TERM PROMISSORY NOTE, FOR THE REPAYMENT OF THE INDEBTEDNESS

TERM PROMISSORY NOTE

$1,500,000.00 September 15, 1999

FOR VALUE RECEIVED, in the manner, on the dates and in the amounts herein stipulated, NATURAL GAS SERVICES GROUP, INC., a Texas corporation ("Borrower"), hereby promises and agrees to pay to the order of WESTERN NATIONAL BANK, a national banking association ("Lender"), in Midland, Midland County, Texas, the principal sum of One Million Five Hundred Thousand and No/100 Dollars ($,1,500,000.00) in lawful money of the United States of America, which shall be legal tender in payment of all debts and dues, public and private, at the time of payment, together with interest on the unpaid principal amount hereof from time to time outstanding until maturity at a rate per annum which shall from day to day be equal to the lesser of (a) one percent (1.00%) over the Prime Rate (the "Established Rate") in effect from day to day (calculated on the basis of actual days elapsed, but computed as if each calendar year consisted of 360 days) or (b) the Highest Lawful Rate. Each change in the rate of interest charged under this Term Promissory Note (this "Note") shall, subject to the terms hereof, become effective, without notice to Borrower, upon the effective date of each change in the Prime Rate or the Highest Lawful Rate, as the case may be. Notwithstanding the foregoing, if at any time the Established Rate exceeds the Highest Lawful Rate, the rate of interest on this Note shall be limited to the Highest Lawful Rate, but any subsequent reductions in the Established Rate shall not reduce the rate of interest hereon below the Highest Lawful Rate until the total amount of interest accrued hereon approximately equals the amount of interest which would have accrued hereon if the Established Rate had at all times been in effect. In the event that at maturity (stated or by acceleration), or at final payment of this Note, the total amount of interest paid or accrued hereon is less than the amount of interest which would have accrued if the Established Rate had at all times been in effect, then, at such time and to the extent permitted by applicable laws, Borrower shall pay to Lender an amount equal to the difference between (a) the lesser of the amount of interest which would have accrued if the Established Rate had at all times been in effect or the amount of interest which would have accrued if the Highest Lawful Rate had at all times been in effect, and (b) the amount of interest actually paid or accrued on this Note. Interest calculations may be made ten days prior to any interest installment due date under this Note, in which event, if there is an adjustment in the interest rate in accordance with the terms hereof during such ten-day period, then Borrower shall subsequently, on demand, pay to Lender any underpayment, or Lender shall pay to Borrower, any overpayment, as the case may be, as a result of any adjustment during such ten-day period.

This Note is the Term Promissory Note referred to in the Loan Agreement, dated as of the date hereof (as the same may be amended, supplemented or otherwise modified from time to time, the "Loan Agreement"), by and between Borrower and Lender, and is subject to the terms and conditions thereof. Reference is made to the Loan Agreement for provisions for the disbursement of funds hereunder and for a further statement of the rights, remedies, powers, privileges, benefits, duties and obligations of Borrower and Lender under the Loan Agreement and this Note. Terms used herein which are defined in the Loan Agreement shall have such defined meanings unless otherwise defined herein. The holder of this Note shall be entitled to the benefits of the Loan Agreement.

Interest only on this Note shall be due and payable on October 15, 1999, November 15, 1999 and December 15, 1999. Thereafter, the principal of this Note shall be due and payable (a) in fifty-nine consecutive monthly installments of $25,000.00 each, with the first such installment being due and payable on January 15, 2000, and a like installment being due and payable on the first day of each succeeding month to and including November 15, 2004; and (b) one final installment in an amount equal to all remaining unpaid principal and accrued and unpaid interest on this Note shall be due and payable on December 15, 2004. Interest, computed on the unpaid balance of this Note, shall be due and payable as it accrues, on the same dates as, but in addition to, the installments of principal. All payments and prepayments shall be applied first to accrued and unpaid interest, and the balance to principal. Partial prepayments of principal shall be applied to the installments of principal thereof in the inverse order of their maturity. All of the past due principal and accrued interest hereunder shall, at the option of Lender, bear interest from maturity (stated or by acceleration) until paid at a rate per annum equal to the Highest Lawful Rate.

This Note is secured as provided in the Loan Agreement and in the other Loan Papers, to which reference is hereby made for a description of the properties and assets in which a lien and security interest has been granted, the nature and extent of the security, the terms and conditions upon which the liens and security interests were granted and the rights of the holder of this Note with respect thereto.

Time is of the essence of this Note. Upon the occurrence of any one or more of the Events of Default specified in the Loan Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable, all as provided therein.

Borrower and any and all co-makers, endorsers, guarantors and sureties severally waive notice (including, but not limited to, notice of protest, notice of dishonor, notice of intent to accelerate and notice of acceleration), demand, presentment for payment, protest, diligence in collecting or bringing suit and the filing of suit for the purpose of fixing liability, and consent that the time of payment hereof may be extended and re-extended from time to time without notice to them or any of them, and each agrees that his, her or its liability on or with respect to this Note shall not be affected, diminished or impaired by any (a) release of any security at any time existing for this Note, (b) substitution for any security at any time existing for this Note, or (c) failure to perfect (or to maintain perfection of) any lien on or security interest in any such security, in each case in whole or in part, with or without notice, before or after maturity.

It is the intention of Borrower and Lender that Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated by the Loan Agreement and this Note would be usurious as to Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to Lender notwithstanding the other provisions of the Loan Agreement and this Note), then, in that event, notwithstanding anything to the contrary in this Note, the Loan Agreement or any other Loan Paper or other agreement entered into in connection with or as security for this Note, (i) the aggregate of all consideration which is contracted for, taken, reserved, charged or received by Lender under this Note, the Loan Agreement or any other Loan Paper or agreement entered into in connection with or as security for this Note shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess

shall be credited by Lender on the principal amount of the Obligations to Lender (or, to the extent that the principal amount of the Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower); and (ii) in the event that the maturity of this Note is accelerated by reason of an Event of Default under the Loan Agreement or otherwise, or in the event of any prepayment, then such consideration that constitutes interest under law applicable to Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in this Note, the Loan Agreement or otherwise shall be cancelled automatically by Lender as of the date of such acceleration of prepayment and, if theretofore paid, shall be credited by Lender on the principal amount of the Obligations (or, to the extent that the principal amount of such Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower).

To the extent that Texas Finance Code Section 303.201, as supplemented by Article 5069-ID.002 of the Texas Revised Civil Statutes (Texas Credit Title) is relevant to Lender for the purposes of determining the Highest Lawful Rate, the applicable rate ceiling under such provisions shall be determined by the indicated (weekly) rate ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law. Notwithstanding anything to the contrary contained herein or in any of the other Loan Papers, it is not the intention of the Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

This Note is performable and payable in the County of Midland, State of Texas, and shall be construed in accordance with, and governed by, the laws of the State of Texas; provided, however, that the laws pertaining to allowable rates of interest may, from time to time, be governed by the laws of the United States of America.

NATURAL GAS SERVICES GROUP, INC.

By:/s/ Burnace J. Boles, Jr.

Burnace J. Boles, Jr., President

FIRST AMENDMENT AND WAIVER TO LOAN AGREEMENT

THIS FIRST AMENDMENT AND WAIVER TO LOAN AGREEMENT (this "Amendment"), dated as of March 9, 2001, is made and entered into by and between Natural Gas Services Group, Inc., a Colorado corporation ("Borrower"), Wallace C. Sparkman, Wallace O. Sellers, CAV-RDV, LTD., Diamente Investments, L.P., Rotary Gas Systems, Inc., NGE Leasing, Inc. and Western National Bank, a national banking association ("Lender").

W I T N E S S E T H :

WHEREAS, Borrower and Lender entered into that certain Loan Agreement, dated as of September 15, 1999 (the "Agreement"), providing for, among other things, loans to Borrower evidenced by (i) that certain Revolving Line of Credit Promissory Note, dated September 15, 1999, in the original principal amount of Seven Hundred Fifty Thousand and No/100 Dollars ($750,000.00), executed by Borrower and payable to the order of Lender in accordance with the terms set forth therein; and (ii) that certain Term Promissory Note, dated September 15, 1999, in the original principal amount of One Million Five Hundred Thousand and No/100 Dollars ($1,500,000.00), executed by Borrower and payable to the order of Lender in accordance with the terms set forth therein;

WHEREAS, Borrower has requested that Lender provide additional loans to Borrower in an aggregate amount not to exceed Seven Hundred Thousand and No/100 Dollars ($700,000.00);

WHEREAS, Borrower has sold, and is no longer the owner of, all of the issued and outstanding shares of capital stock of C.N.G. Engines Company;

WHEREAS, Hi-Tech Compressor Company, L.C. changed its name to Rotary Gas Systems, L.C.;

WHEREAS, Borrower conveyed all of its ownership interest in Rotary Gas Systems, L.C. to Flare King, Inc.;

WHEREAS, Rotary Gas Systems, L.C. conveyed all of its assets to Flare King, Inc. and Rotary Gas Systems, L.C. thereafter dissolved;

WHEREAS, Flare King, Inc. changed its name to Rotary Gas Systems, Inc.;

WHEREAS, NGE Leasing, Inc., a Texas corporation and wholly owned subsidiary of Borrower, proposes to issue and sell its Series A 10% Subordinated Notes due December 31, 2005 in the maximum aggregate principal amount of $3,500,000.00 (the "Subordinated Notes");

WHEREAS, the Borrower desires to provide credit support for the Subordinated Notes in the form of Borrower's guaranty of payment of the Subordinated Notes;

WHEREAS, Natural Gas Acquisition Corporation, a Colorado corporation and wholly owned subsidiary of the Borrower, proposes to enter into an Asset Purchase Agreement, effective as of January 1, 2001, with Great Lakes Compression, Inc. pursuant to which Natural

Gas Acquisition Corporation will purchase the natural gas compression business of Great Lakes Compression, Inc. for the aggregate purchase price of $8,000,000.00 (the "Acquisition");

WHEREAS, Borrower desires to amend the Agreement to provide for such additional loans to the Borrower and the other matters set forth herein;

WHEREAS, the Lender is agreeable to the Borrower's requests but only upon and subject to the terms and provisions which are hereinafter specified.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I
DEFINED TERMS.

In addition to the terms defined in this Amendment, all terms defined in the Agreement, and not otherwise defined herein, shall have the meaning given them in the Agreement when used herein.

ARTICLE II
AMENDMENTS TO LOAN AGREEMENT.

SECTION 2.1. AMENDMENT TO DEFINITIONS.

(a) The definitions of "Guarantors" and "Notes" contained in Section 1.1 of the Agreement are amended to read as follows:

"Guarantors" means (i) the Subsidiaries identified in Section 4.18 of this Agreement (excluding Hy-Bon Rotary Compression, LLC and Natural Gas Acquisition Corporation), (ii) Wallace O. Sellers, (iii) Cav-RDV, LTD., (iv) Wallace C. Sparkman, and (v) Diamente Investments, L.P.

"Notes" means the Term A Promissory Note, the Term B Promissory Note and the Revolving Line of Credit Promissory Note, as further described in Section 2.1 of this Agreement.

(b) Section 1.1 of the Agreement is further amended by adding a new definition of "Subordinated Notes" immediately after the defined term "Rights", and which reads in full as follows:

"Subordinated Notes" means the Series A 10% Subordinated Notes due December 31, 2006 in the maximum aggregate principal amount of $3,500,000.00 issued by NGE Leasing, Inc.

SECTION 2.2. TERM LOANS. Each reference to "Term Promissory Note" in Section 2.1(a) of the Agreement is amended to read "Term A Promissory Note".

Section 2.1(a) of the Agreement is further amended by adding a new paragraph immediately following the first paragraph which new paragraph reads in full as follows:

> The Borrower shall execute and deliver to the Lender the Term B Promissory Note in the form of Exhibit A-1 hereto in the original principal amount of $700,000.00 (the "Term B Promissory Note").
>
> Subject to arid upon the terms and conditions of this Agreement, the entire amount of the Term B Promissory Note will be funded in a single Advance. The Term B Promissory Note shall be stated to mature five years from the date of such note and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in the Term B Promissory Note. Principal and interest on the Term B Promissory Note shall be payable in the manner and on the dates specified therein,

SECTION 2.3. ORDER OF APPLICATION. Section 2.6 of the Agreement is amended to read in full as follows:

> 2.6 Order of Application. Except as otherwise provided in the Loan Papers, all payments and prepayments on the obligations, including proceeds from the exercise of any Rights of Lender under the Loan Papers, shall be applied to the Obligations in the following order: (i) first, to reasonable expenses for which Lender shall not have been reimbursed under the Loan Papers and then to all amounts to which Lender is entitled to indemnification under the Loan Papers; (ii) to the accrued interest on the Note being paid or prepaid; (iii) to the principal of the Note being paid or prepaid and, with regard to the Term A Promissory Note and the Term B Promissory Note, applied upon installments of most remote maturity; and (iv) to the remaining Obligations.

SECTION 2.4. INITIAL ADVANCES. Section 3.1(a) of the Agreement is amended (i) to delete the word "either" in the second line of Section 3.1(a) and replace such word with the word "any", and (ii) to delete the phrase "the Term Promissory Note" appearing in Section 3.1(a)(2) and substituting in place thereof "the Term A Promissory Note and the Term B Promissory Note".

SECTION 2.5. PURPOSE OF LOAN. Section 4.11(a) of the Agreement is amended to read in full as follows:

> (a) with respect to loans made pursuant to and evidenced by the Term A Promissory Note, for the repayment of the indebtedness described on Schedule 11 hereto, and with respect to

loans made pursuant to and evidenced by the Term B Promissory Note, for repaying $700,000.00 of the aggregate outstanding principal and accrued and unpaid interest on the Revolving Line of Credit Promissory Note.

SECTION 2.6. SUBSIDIARIES. Section 4.18 of the Agreement is amended to read in full as follows:

4.18 Subsidiaries. The following constitute all the Subsidiaries of the Borrower at the date hereof:

Rotary Gas Systems, Inc. (formerly, Flare King, Inc.), NGE Leasing, Inc., Natural Gas Acquisition Corporation, and Hy-Bon Rotary Compression, LLC

Each such Subsidiary is wholly-owned by the Borrower, except that Hy-Bon Rotary Compression, LLC is owned 50% by Borrower.

SECTION 2.7. ADDITIONAL REPORTING REQUIREMENT. Section 5.1 of the Agreement is amended to add a new subparagraph (k) which reads in full as follows:

(k) as soon as available, but in any event not later than 30 days after the end of each month, a report, in detail reasonably satisfactory to Lender, (i) setting forth, by owner, the unit number, serial number or other identifying number of each gas compressor owned by the Borrower and its Subsidiaries, (ii) stating whether or not each compressor identified in the report has been leased or rented to any person and, if so, a brief description of the lease, including, without limitation, the date of the lease and the name of the lessee, (iii) describing the specific location of each gas compressor, (iv) attaching copies of any lease or rental agreement entered into during the prior month and (v) including such other information as Lender shall reasonably require.

SECTION 2.8. INSURANCE. The last sentence of Section 5.4 of the Agreement is amended to read in full as follows:

In the case of any fire, accident or other casualty causing loss or damage to any property of Borrower, the proceeds of such policies in excess of $50,000.00 shall, at Borrower's option, be used to (i) replace the lost or damaged property with similar property having a value at least equivalent to the lost or damaged property, or (ii) prepay the Term A Promissory Note, the Term B Promissory Note and the Revolving Line of Credit Promissory Note, in that order.

SECTION 2.9. SUBORDINATED NOTES. There is added to the Agreement a new Section 5.12 which reads in its entirety as follows:

> 5.12 Subordination of Subordinated Notes. Subject to Section 6.15 hereof, the indebtedness of NGE Leasing, Inc. evidenced by the Subordinated Notes and any guarantee thereof by the Borrower and any and all renewals, extensions, refundings and modifications (but not increases) thereto are hereby subordinated and subject in right of payment and in all other respects to the prior payment in full of (a) all Debt of the Borrower and any Subsidiary to the Lender, (b) any other indebtedness, liability or obligation, contingent or otherwise, of Borrower or any Subsidiary or Guarantor to lender, and any guaranty, endorsement or other contingent obligation in respect thereof, whether outstanding on the date hereof or hereafter created, incurred or assumed, and (c) modifications, renewals, extensions, increases, rearrangements and refundings of any such indebtedness, liabilities or obligations.

SECTION 2.10. FINANCIAL RATIO. Section 6.1(d) of the Agreement is amended to read in full as follows:

> (d) Consolidated Debt to Consolidated Tangible Net Worth Ratio. Permit the ratio of (i) Consolidated Debt to (ii) Consolidated Tangible Net Worth, as such terms are defined herein and calculated pursuant to Exhibit O hereof, to be more than 2.00 to 1.00 as of the end of each month through and including March 31, 2001, or less than 2.75 to 1.00 as of the end of each month after March 31, 2001.

SECTION 2.11. DEBT. Section 6.2(b) of the Agreement is amended to read in full as follows:

> (b) Debt existing on the date of this Agreement which is set forth in the financial statements referred to in Section 4.5 of this Agreement (excluding, however, the Debt described in Schedule II hereto which shall be repaid in its entirety on the day the initial Advance is made to Borrower under the Term A Promissory Note), but not any increases thereof;

SECTION 2.12. NEW COVENANT. There is added to the Agreement a new Section 6.15 which reads in its entirety as follows:

> (b) Notwithstanding anything in the Subordinated Notes or any other instrument or agreement evidencing or pertaining to the Subordinated Notes to the contrary, make any payment of principal or interest on the Subordinated Notes, unless:

(i) there is not in existence, at the time of the principal or interest payment to be made, an "Event of Default" as defined in Section 7.1 of this Agreement; and

(ii) the principal or interest payment to be made would not cause or result in the occurrence of an "Event of Default" as defined in Section 7.1 of this Agreement.

SECTION 2.13. SCHEDULE II. The introductory line of Schedule II is amended to read in full as follows:

The following indebtedness of the Borrower will be repaid in its entirety with proceeds of the Term A Promissory Note.

SECTION 2.14. DEFAULTS. Section 7.1 of the Agreement is amended by adding a new subparagraph (k) and a new subparagraph (1) immediately after subparagraph (j) and which new paragraphs read in full as follows:

(k) Borrower or any Subsidiary defaults in the payment when due of any installment of principal or interest on the Subordinated Notes.

(1) the occurrence of an "Event of Default" within the meaning of that certain Asset Purchase Agreement, effective as of January 1, 2001, between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc.

SECTION 2.15. NOTE REFERENCES. All references to "Term Promissory Note" appearing in the Term Promissory Note, dated September 15, 1999, in the original principal amount of $1,500,000.00 made by Borrower payable to the order of Lender shall be deemed to be references to the Term A Promissory Note.

SECTION 2.16. NEW EXHIBIT. There is added to the Agreement a new Exhibit A-1 which is identical to Exhibit A-I attached to this Amendment.

ARTICLE III
REVOLVING LOANS.

Borrower's repayment of all outstanding principal and accrued and unpaid interest on the Revolving Line of Credit Promissory Note shall not be in extinguishment or termination of the Revolving Line of Credit Promissory Note, and Borrower may continue to borrow, prepay and reborrow under such note in accordance with and subject to the terms and conditions of the Agreement and such Revolving Line of Credit Promissory Note.

ARTICLE IV
WAIVERS.

(a) The Lender hereby waives compliance with Section 6.2, 6.12, 6.13 and 6.14(i) of the Agreement, but solely with respect to Natural Gas Acquisition Corporation and only to the extent necessary to permit the execution, delivery and performance by Natural Gas Acquisition Corporation (as buyer) of the Asset Purchase Agreement, effective as of January 1, 2001, with Great Lakes Compression, Inc. and being in the form submitted by Borrower to the Lender.

(b) The Lender hereby waives compliance with Section 6.8 of the Agreement, but solely with respect to Natural Gas Acquisition Corporation and only to the extent necessary to permit the execution, delivery and performance by Natural Gas Acquisition corporation (as mortgagor) of the Continuing Collateral Mortgage, made and delivered in connection with the Asset Purchase Agreement referred to in subparagraph (a) of this Section 4, to and in favor of Great Lakes Compression, Inc. and being in the form submitted by Borrower to the Lender.

(c) The Lender hereby waives compliance with Section 6.8, of the Agreement, but solely with respect to Natural Gas Acquisition Corporation and only to the extent necessary to permit the execution, delivery and performance by Natural Gas Acquisition Corporation (as buyer) of the Security Agreement, made and delivered in connection with the Asset Purchase Agreement referred to in subparagraph (a) of this Section 4, to and in favor of Great Lakes Compression, Inc., and being in the form submitted by Borrower to the Lender.

(d) The Lender hereby waives compliance with Section 6.8 of the Agreement, but solely with respect to Natural Gas Services Group, Inc. and only to the extent necessary to permit the execution, delivery and performance by Natural Gas Services Group, Inc. (as pledgor) of the Stock Pledge Agreement, made and delivered in connection with the Asset Purchase Agreement referred to in subparagraph (a) of this Section 4, to and in favor of Great Lakes Compression, Inc. and being in the form submitted by Borrower to the Lender.

(e) The Lender hereby waives compliance with Section 6.2 of the Agreement, but solely with respect to Natural Gas Services Group, Inc. and only to the extent necessary to permit the execution, delivery and performance by Natural Gas Services Group, Inc. (as guarantor) of the Limited Recourse Guaranty Agreement made and delivered in connection with the Asset Purchase Agreement referred to in subparagraph (a) of this Section 4, to and in favor of Great Lakes Compression, Inc. and being in the form submitted by Borrower to the Lender.

(f) The Lender hereby waives compliance with Section 6.2, of the Agreement, but solely with respect to NGE Leasing, Inc. and only to the extent necessary to permit the execution, issuance and delivery by NGE Leasing, Inc. (as issuer) of the Subordinated Notes and being in the form submitted by Borrower to the Lender.

Except as to the specific parties and the specific documents referenced above and except as expressly waived herein, the Agreement shall continue to be, and shall remain, in full force and effect. This waiver shall not be deemed to be a waiver of, or consent to, or a modification or amendment of, any other term or condition of the Agreement or to prejudice any other right or rights which the Lender may now have or may have in the future under or in connection with the

Agreement or any of the instruments or agreements referred to therein, as the same may be amended from time to time.

Notwithstanding the waiver by the Lender of the matters set forth above, the waiver of the Lender herein shall be ineffectual and of no force and effect to the extent that (i) there are any material changes, alterations or additions in or to the terms of the agreements described in subparagraphs (a) through (f) above in the form delivered to the Lender and which changes, alterations or additions are not disclosed to and approved by the Lender prior to the effectiveness of any such changes, alteration or addition or (ii) Borrower omitted to disclose to the Lender or incorrectly described a material term, provision or element of any such agreement or the Acquisition necessary in order to make the descriptions of the Acquisition not misleading to the Lender.

ARTICLE V
REPRESENTATIONS AND WARRANTIES.

To induce Lender to enter into this Amendment, Borrower hereby represents and warrants to the Lender as follows:

(a) Borrower has the corporate power, authority and legal right to make and deliver this Amendment and to perform its obligations under the Agreement as amended hereby and has taken all action necessary to authorize the execution and delivery of this Amendment and the performance of the Agreement as amended hereby.

(b) This Amendment has been duly executed and delivered on behalf of Borrower by its duly authorized officer, and this Amendment constitutes a legal, valid and binding obligation of Borrower, enforceable in accordance with its terms, except as the enforceability thereof may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

(c) The proceeds of the loans to be made to Borrower on the date hereof shall be used by Borrower to repay and refinance all amounts outstanding under the Revolving Line of Credit Promissory Note.

(d) The execution, delivery and performance by Borrower of this Amendment do not violate or constitute a default under any provision of applicable law or any agreement binding upon Borrower or the Subsidiaries of Borrower or result in the creation or imposition of any Lien upon any of the assets of Borrower or the Subsidiaries of Borrower, except Liens expressly permitted by the Agreement.

(e) The representations and warranties contained in Article IV of the Agreement, as amended hereby, are true and correct on and as of the date hereof as though made on and as of the date hereof.

(f) No Event of Default has occurred and is continuing (before and after giving effect to this Amendment.

(g) The Subordinated Notes are subordinated in right of payment and in all other respects to the Debt of Borrower to the Lender.

(h) The Borrower has provided to the Lender true, accurate and complete copies of all documents, instruments, certificates and agreements in the form to be executed by the Borrower and Natural Gas Acquisition Corporation in connection with the Acquisition, and none of such documents, instruments, certificates or agreements have been amended, modified, supplemented or otherwise altered in any material respect.

ARTICLE VI
RATIFICATION OF SECURITY DOCUMENTS.

Borrower and each Subsidiary hereby ratify and confirm in all respects each (i) Stock Pledge Agreement (other than the Stock Pledge Agreement, dated as of September 15, 1999, executed by the Borrower pledging to the Lender the stock of C.N.G. Engines Company), and (ii) Security Agreement, in each case dated as of September 15, 1999 (as any of the same have been amended and restated in connection with this Amendment), to which it is a party and acknowledge that payment of the Term B Promissory Note is secured by all such agreements. The amendments contemplated hereby shall not limit or impair any Bank Liens securing the Obligations, each of which are hereby ratified, affirmed and extended to secure the obligations as increased pursuant hereto.

ARTICLE VII
ADDITIONAL COLLATERAL.

Not later than ninety days after the date of this Amendment, Borrower will cause Hy-Bon Rotary Compression, LLC to grant to the Lender as additional security for Borrower's Debt to Lender a first and prior Bank Lien on the accounts, contracts and documents, including, without limitation, lease or rental agreements, in each case entered into or held by Hy-Bon Rotary Compression, LLC on behalf of or for the benefit of Borrower or any Subsidiary or which are otherwise allocable or attributable solely to the membership interest of Borrower or any Subsidiary in Hy-Bon Rotary Compression, LLC and which Bank Lien will be created and perfected by and in accordance with the provisions of security agreements and financing statements, or other security instruments, all in form and substance satisfactory to the Lender in its sole discretion and in sufficient executed (and acknowledged, where necessary or appropriate) counterparts for recording purposes.

ARTICLE VIII
CONDITIONS PRECEDENT.

This Amendment, and the Lender's commitment to make additional loans to the Borrower evidenced by the Term B Promissory Note, shall be effective only upon satisfaction of the following conditions precedent:

(a) Lender shall have received counterparts of this Amendment duly executed and delivered by Borrower and Guarantors;

(b) Lender shall have received the Term B Promissory Note in the form of Exhibit A-1 hereto, executed and delivered by a duly authorized officer of Borrower;

(c) Lender shall have received from each Guarantor a Guaranty Agreement in form and substance satisfactory to Lender in its sole discretion;

(d) Lender shall have received from each of Rotary Gas Systems, Inc., NGE Leasing, Inc. and Borrower, a First Amended and Restated Security Agreement inform and substance satisfactory to Lender in its sole discretion;

(e) Lender shall have received from Borrower a First Amended and Restated Stock Pledge Agreement in form and substance satisfactory to Lender in its sole discretion;

(f) no Event of Default shall have occurred and be continuing as of the date of this Amendment, both before and after giving effect to this Amendment;

(g) Lender shall have received a copy of the resolutions, in form and substance satisfactory to Lender, of the Board of Directors of Borrower authorizing (i) the execution, delivery and performance of this Amendment, the First Amended and Restated Stock Pledge Agreement and the other documents to be entered into in connection herewith to which it is a party, (ii) the borrowings contemplated hereby and (iii) the ratification by it of the pledge and grant of security interests in the assets of the Borrower, certified by its Secretary or Assistant Secretary as of the date hereof, which certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate and shall be in form and substance satisfactory to Lender;

(h) Lender shall have received a copy of the resolutions, in form and substance satisfactory to Lender, of the Board of Directors of Rotary Gas Systems, Inc. authorizing the execution, delivery and performance of this Amendment, its Guaranty, First Amended and Restated Security Agreement and the other documents to be entered into in connection herewith to which it is a party, certified by its Secretary or Assistant Secretary as of the date hereof, which certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate and shall be in form and substance satisfactory to Lender;

(i) Lender shall have received a copy of the resolutions, in form and substance satisfactory to Lender, of the Board of Directors of NGE Leasing, Inc. authorizing (i) the execution, delivery and performance of this Amendment, its Guaranty and the other documents to be entered into in connection herewith to which it is a party, and (ii) the ratification by it of the pledge and grant of security interests in the assets of NGE Leasing, Inc., certified by its Secretary or Assistant Secretary as of the date hereof, which certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate and shall be in form and substance satisfactory to Lender;

(j) Lender shall have received a copy of the resolutions, in form and substance satisfactory to Lender, of the Board of Directors, General Partner or other governing bodies of each of Diamente Investments, L.P. and CAV-RDV, LTD., authorizing the execution, delivery and performance of this Amendment, its respective Guaranty and the other documents to be

entered into in connection herewith to which it is a party and certified by its Secretary or Assistant Secretary as of the date hereof, which certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate and shall be in form and substance satisfactory to Lender; and

(k) Lender shall have received such other agreements, documents or instruments as Lender may require.

ARTICLE IX
NO OTHER AMENDMENTS; RATIFICATION OF AGREEMENT.

Except as expressly amended and modified by this Amendment, all of the provisions and covenants of the Agreement, all exhibits thereto and all other Loan Papers are and shall continue to remain in full force and effect in accordance with the terms thereof and are hereby ratified and confirmed by Borrower, the Subsidiaries and Guarantors as of the date of this Amendment as if the Agreement and such other Loan Papers were reexecuted as of the date of this Amendment.

ARTICLE X
NO ADDITIONAL COMMITMENTS.

Borrower and Guarantors understand, acknowledge and agree that Lender has not made any commitments, and has no obligation, to renew, extend, refinance, increase or otherwise modify any of the Notes after the respective maturity date of each such Note.

ARTICLE XI
COUNTERPARTS.

This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

ARTICLE XII
GOVERNING LAW.

THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

ARTICLE XIII
GLOBAL AMENDMENT OF LOAN PAPERS.

All of the Loan Papers are hereby modified wherever necessary, and even though not specifically addressed herein, so as to conform to the amendments to the Agreement as set forth herein, and Borrower, the Subsidiaries and Guarantors covenant to observe, comply with and perform each of the terms and provisions of the Loan Papers to which they are parties, as modified hereby. Each Loan Paper to which Borrower and the Subsidiaries or any Guarantor is a party is hereby amended so that any reference in each such Loan Paper to the Agreement shall mean a reference to the Agreement as amended hereby.

ARTICLE XIV
RELEASE.

The Borrower and Guarantors hereby release the Lender and its officers, directors, shareholders, agents, employees, attorneys, agents and representatives (collectively, the "Released Parties") from any and all (i) damages, claims, liabilities, causes of action, contracts, or controversies of any type, kind, nature, description or character; (ii) debts, accounts, sums of money, compensation, losses, costs or expense; (iii) breaches of contract, duty or any other type of relationship; (iv) acts of omission, negligence, misfeasance or malfeasance; and (v) commitments or promises of any type made prior to the date hereof (the matters described in the preceding clauses (i) through (v), inclusive, being herein called the "Claims", whether or not the Claims are now known, unknown, or unforeseen, or are liquidated or unliquidated, which in any manner arise out of, or relate to, the Notes, this Amendment, the Agreement or otherwise arising out of facts or events existing or occurring prior to the date hereof; including, without limitation, any Claims of the borrower relating to: (a) the negotiation of the terms of the Term B Promissory Note, this Amendment or the Agreement; or (b) any action or inaction of any of the Released Parties with respect to the Notes, this Amendment or the Agreement.

ARTICLE XV
FINAL AGREEMENT.

THE LOAN AGREEMENT AS AMENDED BY THIS AMENDMENT AND THE OTHER LOAN PAPERS REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their respective duly authorized officers as of the date and year first above written.

BORROWER:

NATURAL GAS SERVICES GROUP, INC.

SECOND AMENDMENT TO LOAN AGREEMENT

THIS SECOND AMENDMENT TO LOAN AGREEMENT (this "Amendment"), dated as of March 20, 2001, is by and among Natural Gas Services Group, Inc., a Colorado corporation (the "Borrower"), Wallace C. Sparkman, Wallace O. Sellers, CAV-RDV, LTD., Diamente Investments, L.P., Rotary Gas Systems, Inc., NGE Leasing, Inc. (collectively the "Guarantors"), and Western National Bank, a national banking association (the "Lender").

WHEREAS, the Borrower, the Guarantors and the Lender have entered into that certain Loan Agreement, dated as of September 15, 1999, as amended by the First Amendment and Waiver to Loan Agreement, dated as of March 9, 2001 (said Loan Agreement, as amended, the "Loan Agreement");

WHEREAS, the Borrower, the Guarantors and the Lender desire to further amend the Loan Agreement in certain respects;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, ALL TERMS DEFINED IN THE LOAN AGREEMENT SHALL HAVE THE SAME MEANINGS HEREIN.

ARTICLE II
AMENDMENT OF SECTION 5.1. SUBPARAGRAPH (A) OF SECTION 5.1 OF THE LOAN AGREEMENT IS HEREBY AMENDED TO READ IN ITS ENTIRETY AS FOLLOWS:

> (a) as soon as available, but in any event not later than 120 days after the end of each fiscal year of the Borrower, a copy of the audited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such year and the related consolidated statements of income and changes in cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, by Hein + Associates LLP or other independent certified public accounting firm of recognized standing acceptable to the Lender;

ARTICLE III
REPRESENTATIONS AND WARRANTIES. THE BORROWER HEREBY REPRESENTS AND WARRANTS TO THE LENDER AS FOLLOWS:

> (a) The representations and warranties contained in Article IV of the Loan Agreement are true and correct on and as of the date hereof as though made on and as of the date hereof.

(b) No Event of Default has occurred and is continuing (before or after giving effect to this Amendment).

ARTICLE IV
CONDITIONS PRECEDENT. THIS AMENDMENT SHALL BE EFFECTIVE AS OF THE DATE UPON WHICH ALL OF THE FOLLOWING CONDITIONS HAVE BEEN SATISFIED:

(i) the Lender shall have received counterparts of this Amendment duly executed by the Borrower, the Guarantors and the Lender; and

(ii) the Lender shall have received any other documents, certificates and opinions in connection with this Amendment as may be requested by the Lender, in form and substance satisfactory to the Lender.

ARTICLE V
MISCELLANEOUS.

SECTION 5.1. RATIFICATION. Except as expressly amended hereby, the Loan Agreement and the other Loan Papers are and shall be unchanged and all of the terms, provisions, covenants, conditions, schedules and exhibits thereof shall remain and continue in full force and effect and are hereby ratified and confirmed by the Borrower, the Guarantors and the Lender as of the date of this Amendment as if the Loan Agreement and the other Loan Papers were reexecuted as of the date of this Amendment.

SECTION 5.2. MULTIPLE COUNTERPARTS. Multiple counterparts of this Amendment may be signed by the parties (including by facsimile transmission), each of which shall be an original but all of which together shall constitute one and the same instrument.

SECTION 5.3. REFERENCE TO AGREEMENT. Each of the Loan Papers is hereby amended so that any reference in the Loan Papers to the Loan Agreement shall mean a reference to the Loan Agreement as amended hereby.

SECTION 5.4. GOVERNING LAW. This Amendment shall be governed by and construed in accordance with the laws of the State of Texas.

THE LOAN AGREEMENT AS AMENDED BY THIS AMENDMENT AND THE OTHER LOAN PAPERS REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be effective as of the date first above written.

BORROWER:

NATURAL GAS SERVICES GROUP, INC.

By: ---------------------------------------
Wallace C. Sparkman, President

LENDER:

WESTERN NATIONAL BANK

By: /s/ Scott A. Lovett

Scott A. Lovett, Executive Vice President

GUARANTORS:

/s/ Wallace C. Sparkman

Wallace C. Sparkman

/s/ Wallace O. Sellers

Wallace O. Sellers

CAV-RDV, LTD.

By: /s/ Kirk Mehaffey

Kirk Mehaffey, General Partner

DIAMENTE INVESTMENTS, L.P.

By: Diamente Management, LLC, its general partner

By: /s/ Wallace C. Sparkman

Wallace C. Sparkman, President

ROTARY GAS SYSTEMS, INC.

By: /s/ Wayne Vinson

Wayne Vinson, President

NGE LEASING, INC.

By: /s/ Scott Sparkman

Scott Sparkman, President

By: /s/ Wallace C. Sparkman

Wallace C. Sparkman, President

LENDER:

WESTERN NATIONAL BANK

By: /s/ Scott A. Lovett

Scott A. Lovett, Executive Vice President

GUARANTORS:

/s/ Wallace C. Sparkmen

Wallace C. Sparkman

/s/ Wallace O. Sellers

Wallace O. Sellers

CAV-RDV, LTD.

By: /s/ Kirk Mehaffey

Kirk Mehaffey, General Partner

DIAMENTE INVESTMENTS, L,P.

By: Diamente Management, LLC, its general, partner

By:

Wallace C. Sparkman, President

SUBSIDIARIES AND GUARANTORS:

ROTARY GAS SYSTEMS, INC.

By: /s/ Wayne Vinson

Wayne Vinson, President

NGE LEASING, INC.

By: /s/ Scott Sparkman

Scott Sparkman, President

THIRD AMENDMENT AND WAIVER TO LOAN AGREEMENT

THIS THIRD AMENDMENT AND WAIVER TO LOAN AGREEMENT (this "Amendment"), dated as of July 25, 2001, is made and entered into by and between Natural Gas Services Group, Inc., a Colorado corporation ("Borrower"), Wallace C. Sparkman, Wallace O. Sellers, CAV-RDV, LTD., Diamente Investments, L.P., Rotary Gas Systems, Inc., NGE Leasing, Inc. and Western National Bank, a national banking association ("Lender").

W I T N E S S E T H:

WHEREAS, Borrower and Lender entered into that certain Loan Agreement, dated as of September 15, 1999, as amended by that certain First Amendment and Waiver to Loan Agreement, dated as of March 9, 2001, and as further amended by that certain Second Amendment to Loan Agreement, dated as of March 20, 2001, (said Loan Agreement, as so amended, the "Loan Agreement"), providing for, among other things, loans to Borrower;

WHEREAS, the Borrower proposes to issue and sell up to 1,177,000 shares of its preferred stock, to be designated 10% Convertible Series A Preferred Stock, $.01, par value per share (the "Preferred Stock"), at a price of $3.25 per share;

WHEREAS, the Borrower has requested that Lender consent to the proposed issuance of the Preferred Stock and waive and amend certain covenants in the Loan Agreement that prohibit the issuance and sale of the Preferred Stock and the payment of dividends thereon;

WHEREAS, the Lender is agreeable to the Borrower's requests but only upon and subject to the terms and provisions which are hereinafter specified.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I
DEFINED TERMS.

In addition to the terms defined in this Amendment, all terms defined in the Agreement, and not otherwise defined herein, shall have the meaning given them in the Agreement when used herein.

ARTICLE II
WAIVERS.

(a) Subject to paragraphs (b) and (c) below, the Lender hereby waives compliance with Section 6.4 of the Loan Agreement, but solely to the extent necessary to permit Natural Gas Services Group, Inc. to amend its articles of incorporation to provide for the due authorization and creation of a class of securities consisting of not more than 1,177,000 shares of Preferred Stock.

(b) Except as to the specific parties and the specific transactions referenced above and except as expressly waived herein, the Loan Agreement shall continue to be, and shall remain, in full force and effect. This waiver shall not be deemed to be a waiver of, or consent to, or a modification or amendment of any other term or condition of the Loan Agreement or to prejudice any other right or rights which the Lender may now have or may have in the future under or in connection with the Loan Agreement or any of the instruments or agreements referred to therein, as the same may be amended from time to time.

(c) Notwithstanding the waiver by the Lender of the matters set forth above, the waiver of the Lender herein shall be ineffectual and of no force and effect to the extent that (i) there are any material changes, alterations or additions in or to the terms of the issuance and sale of the Preferred Stock as described in the draft of private placement memorandum, dated July 23, 2001, delivered to the Lender and which changes, alterations or additions are not disclosed to and approved by the Lender prior to the effectiveness of any such changes, alteration or addition or (ii) Borrower omitted to disclose to the Lender or incorrectly described a material terms, provision or element of any such Preferred Stock, or the transactions related thereto, necessary in order to make the descriptions of the issuance and sale of the Preferred Stock not misleading to the Lender.

ARTICLE III
AMENDMENTS TO LOAN AGREEMENT.

SECTION 3.1. DIVIDENDS, REDEMPTIONS AND OTHER PAYMENTS. Section 6.9 of the Loan Agreement is amended to read in full as follows:

> 6.9 Dividends, Redemptions and Other payments. Declare or pay any dividends (except dividends payable solely in its own capital stock or limited liability company membership interests, as the case may be) on, or redeem, retire, purchase or otherwise acquire for value, any shares of any class of its respective shares of capital stock or limited liability company membership interests, as the case may be, now or hereafter outstanding, or return any capital to its shareholders or members, as the case may be, or make any other distribution in respect thereof; whether in cash or property or in obligations of the Borrower or any Subsidiary, except that Natural Gas Services Croup, Inc. may declare and pay cash dividends on its outstanding shares of 10% Convertible Series A Preferred Stock, $.01 par value per share, if:
>
> (i) there is not in existence, at the time of the dividend payment to be made, an "Event of Default" as defined in Section 7.1 of this Agreement; and

(ii) the dividend payment to be made would not cause or result in the occurrence of an "Event of Default" as defined in Section 7.1 of this Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES.

To induce Lender to enter into this Amendment, Borrower hereby represents and warrants to the Lender as follows:

(a) Borrower has the corporate power, authority and legal right to make and deliver this Amendment and to perform its obligations under the Loan Agreement as amended hereby and has taken all action necessary to authorize the execution and delivery of this Amendment and the performance of the Loan Agreement as amended hereby.

(b) This Amendment has been duly executed and delivered on behalf of Borrower by its duly authorized officer, and this Amendment constitutes a legal, valid and binding obligation of Borrower, enforceable in accordance with its terms, except as the enforceability thereof may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

(c) The execution, delivery and performance by Borrower of this Amendment do not violate or constitute a default under any provision of applicable law or any agreement binding upon Borrower or the Subsidiaries of Borrower or result in the creation or imposition of any lien upon any of the assets of Borrower or the Subsidiaries of Borrower, except Liens expressly permitted by the Loan Agreement.

(d) No Event of Default has occurred and is continuing (before and after giving effect to this Amendment).

(e) The Borrower has provided to the Lender a copy of a draft of its private placement memorandum, dated July 23, 2001, and a copy of the certificate of designations of the Preferred Stock, both of which are true, accurate and complete in all material respects.

ARTICLE V
CONDITIONS PRECEDENT.

This Amendment shall be effective only upon satisfaction of the following conditions precedent:

(a) Lender shall have received counterparts of this Amendment duly executed and delivered by Borrower and Guarantors;

(b) no Event of Default shall have occurred and be continuing as of the date of this Amendment; and

(c) Lender shall have received such other agreements, documents and instruments as Lender may require.

ARTICLE VI
NO OTHER AMENDMENTS & RATIFICATION.

Except as expressly amended and modified by this Amendment, all of the provisions and covenants of the Loan Agreement, all exhibits thereto and all stock pledge agreements, security agreements, guarantees and all other Loan Papers are and shall continue to remain in full force and effect in accordance with the terms thereof and are hereby ratified and confirmed by Borrower, the Subsidiaries and Guarantors as of the date of this Amendment as if the Loan Agreement and such other Loan Papers were reexecuted as of the date of this Amendment. The amendments contemplated hereby shall not limit or impair any Bank Liens securing the Obligations, each of which are hereby ratified, affirmed and extended to secure the Obligations.

ARTICLE VII
NO ADDITIONAL COMMITMENTS.

Borrower and Guarantors understand, acknowledge and agree that Lender has not made any commitments, and has no obligation, to renew, extend, refinance, increase or otherwise modify any of the Notes after the respective maturity date of each such Note.

ARTICLE VIII
COUNTERPARTS.

This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

ARTICLE IX
GLOBAL AMENDMENT OF LOAN PAPERS.

All of the Loan Papers are hereby modified wherever necessary, and even though not specifically addressed herein, so as to conform to the amendments to the Loan Agreement as set forth herein, and Borrower, the Subsidiaries and Guarantors covenant to observe, comply with and perform each of the terms and provisions of the Loan Papers to which they are parties, as modified hereby. Each Loan Paper to which Borrower and the Subsidiaries or any Guarantor is a party is hereby amended so that any reference in each such Loan Paper to the Loan Agreement shall mean a reference to the Loan Agreement as amended hereby.

ARTICLE X
RELEASE.

The Borrower and Guarantors hereby release the Lender and its officers, directors, shareholders, agents, employees, attorneys, agents and representatives (collectively, the "Released Parties") from any and all (i) damages, claims, liabilities, causes of action, contracts, or controversies of any type, kind, nature, description or character; (ii) debts, accounts, sums of money, compensation, losses, costs or expense; (iii) breaches of contract, duty or any other type

of relationship; (iv) acts of omission, negligence, misfeasance or malfeasance; and (v) commitments or promises of any type made prior to the date hereof (the matters described in the preceding clauses (i) through (v), inclusive, being herein called the "Claims", whether or not the Claims are now known, unknown, or unforeseen, or are liquidated or unliquidated, which in any manner arise out of, or relate to, the Notes, this Amendment, the Loan Agreement or otherwise arising out of facts or events existing or occurring prior to the date hereof; including, without limitation, any Claims of the Borrower relating to: (a) this Amendment or the Loan Agreement; or (b) any action or inaction of any of the Released Parties with respect to the Notes, this Amendment or the Loan Agreement.

ARTICLE XI
GOVERNING LAW.

THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

ARTICLE XII
FINAL AGREEMENT.

THE LOAN AGREEMENT AS AMENDED BY THIS AMENDMENT AND THE OTHER LOAN PAPERS REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment to be executed and delivered by their respective duly authorized officers as of the date and year first above written.

BORROWER:

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wayne L. Vinson

Wayne L. Vinson, President

LENDER:

WESTERN NATIONAL BANK

By: /s/ Wesley D. Bownds

Wesley D. Bownds, Senior Vice President

GUARANTORS:

By: /s/ Wallace C. Sparkman

Wallace C. Sparkman

By: /s/ Wallace O. Sellers

Wallace O. Sellers

CAV-RDV, LTD.

By: /s/ Kirk Mehaffey

Kirk Mehaffey, General Partner

DIAMENTE INVESTMENTS, L.P.

By: Diamente Management, LLC, its general partner

By: /s/ Wallace C. Sparkman

Wallace C. Sparkman, President

SUBSIDIARIES AND GUARANTORS:

ROTARY GAS SYSTEMS, INC.

By: /s/ Wayne Vinson

Wayne Vinson, President

NGE LEASING, INC.

By: /s/ Scott Sparkman

Scott Sparkman, President

EXHIBIT 10.05

EMPLOYMENT CONTRACT

By this Agreement, Natural Gas Services Group, Inc., doing business as Rotary Gas Systems, referred to in this Agreement as Employer, located at Midland, Texas, employs Alan Kurus, referred to in this Agreement as Employee, of Troy, Ohio, who accepts employment on the following terms and conditions:

ARTICLE 1

TERM OF EMPLOYMENT

1.01 By this Agreement, the Employer employs the Employee, and the Employee accepts employment with the Employer, for a period of time beginning October 16, 2000, and ending on December 31, 2003; however, this Agreement may be terminated earlier, as provided in Article 7, below. Extension of this contract may be negotiated by the parties.

ARTICLE 2

COMPENSATION

2.01 As compensation for all services rendered under this Agreement, the Employee shall be paid by the Employer an annual salary of $90,000.00 per year, payable in bi-weekly installments of $3,461.54, during the period of employment. The amount paid is to be prorated for any partial employment period.

2.02 In addition to the compensation set forth in Paragraph 2.01, the Employee shall be entitled to receive a percentage of pre-tax profits to be determined as follows. Attached to this Contract and marked as Exhibit A, is a budget for the calendar years of 2001, 2002, and 2003. After Employer has recovered all accrued operating losses, then at the end of each calendar year, that year's results of operations will be compared to the attached budget. If there is no pre-tax net profit, then no further compensation for that year shall be paid to Employee. If there is a pre-

tax net profit that is less than the budget amount, the Employee shall receive as additional compensation, an amount equal to five (5%) percent of such pre-tax net profits. If the pre-tax net profit meets or exceeds the budget amount, then the Employee shall receive as additional compensation, an amount equal to ten per cent (10%) of such pre-tax profit.

2.03 The Employee shall be paid moving expenses by the Employer in an amount of $12,500.00.

2.04 After the completion of six (6) months of service in the employ of the Employer, the Employee shall be entitled to an annual paid vacation of fifteen (15) business days with full pay. Such vacation shall be taken at any time selected by the Employee and approved by the Employer. In addition, the Employee shall be entitled to six (6) days per year as sick leave with pay. Neither vacation time nor sick leave may be accumulated, and if not used during the year in which it is granted, it shall be deemed to have been waived by the Employee. Provided, however, up to five days of vacation time may be carried forward to the next year with Management approval.

2.05 The Employee shall be entitled to a holiday with full pay on New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and/or any other day designated as a holiday by the Employer.

2.06 The Employer agrees that during the term of employment the Employee shall be afforded the opportunity to participate in any profit sharing trust, pension plan, deferred compensation plan, hospitalization plan, medical or dental service plans, health insurance plan, or any other employee benefit plan that may be in effect at any time or from time to time during the term of employment hereof, which is generally available to other employees of the Employer,

other than any bonus plan or other plan measured by the income or performance of the Employer. Participating in any such plans shall be consistent with the Employee's rate of basic compensation to the extent that compensation is a determinant with respect to coverage or participation under any such plan; provided, however, that the Employee's participation shall not be limited by reason of income or basic compensation if such limitations are not necessary to obtain tax deductions or are not required by law.

ARTICLE 3

DUTIES OF EMPLOYEE

Duties

3.01 The Employee is employed as a Vice President - Sales and Marketing for the RGS Compressor Company division of Rotary Gas Systems, and shall work at Employer's location in Midland, Texas. The Employee shall provide all services required for the successful development, marketing, and operation of the production and sale of small air compressors in accordance with the budget prepared and attached hereto as Exhibit "A".

Extent of Services

3.02 During the term of this Agreement, the Employee may engage in any other business or professional activity, provided that none of it is performed during normal working hours or at the place of business of the Employer.

Changes in Required Duties

3.03 The duties to be performed by the Employee shall be determined from time to time by the President or Rotary Gas Systems.

ARTICLE 4

EMPLOYEE'S OBLIGATIONS OTHER THAN TO PERFORM SERVICES

Non-competition by Employee

4.01 During the term of this Agreement, the Employee shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business that is in competition in any manner whatever with the business of the Employer. Furthermore, upon the termination of this Agreement, the Employee expressly agrees not to engage or participate, directly or indirectly, in any business located within 500 miles that is in competition with the business of the Employer for a period of one year.

Liquidated Damages

4.02 In the event of a breach by the Employee of the obligation not to compete contained in Paragraph 4.01 of this Agreement, the Employee shall pay to the Employer the sum of $2,500.00 per month as liquidated damages for the period during which the Employee continues to be in breach of the obligation not to compete. The Employer and the Employee agree that the amount established by this Paragraph as liquidated damages is reasonable under the circumstances existing at the time of the execution of this Agreement.

4.03 The Employee shall indemnify and hold harmless the Employer from all liability from loss, damage, or injury to persons or property resulting from the negligence or misconduct of the Employee committed in the scope of the Employee's employment.

ARTICLE 5

PROPERTY RIGHTS OF PARTIES

Trade Secrets

5.01 During the term of employment, the Employee will have access to and become familiar with various trade secrets, consisting of formulas, devices, secret inventions, processes, and compilations of information, records, and specifications, owned by the Employer and regularly used in the operation of the business of the Employer. The Employee shall not disclose any such trade secrets, directly or indirectly, not use them in any way, either during the term of this Agreement or at any time thereafter, except as required in the course of his employment. All files, records, documents, drawings, specifications, equipment, and similar items relating to the business of the Employer, whether or not prepared by the Employee, shall remain the exclusive property of the Employer and shall not be removed from the premises of the Employer under any circumstances without the prior written consent of the Employer.

5.02 On the termination of employment or whenever requested by the Employer, the Employee shall immediately deliver to the Employer all property in the Employee's possession or under the Employee's control belonging to the Employer, in good condition, ordinary wear and tear excepted.

ARTICLE 6

OBLIGATIONS OF EMPLOYER

Indemnification of Losses of Employee

6.01 The Employer shall indemnify the Employee for all losses sustained by the Employee, and asserted by others, but not the result of the negligence or misconduct of the Employee, as a direct result of the discharge of his duties required by this Agreement.

Examination of Books

6.02 The Employee shall have the right, either personally or by an accountant retained and paid by the Employee, to examine the books and accounts of the Employer at times mutually convenient to the Employee and the Employer at least once each year, to examine the books and accounts of the Employer to the extent that they relate to transactions affecting the amount of the Employee's compensation as set forth in Article 2.

ARTICLE 7

TERMINATION

Termination by Either Party

7.01 This Agreement may be terminated by either party for material breech by giving 60 days' written notice of termination to the other party. Such termination shall not prejudice any remedy that the terminating party may have at law or in equity.

Effect of Termination on Compensation

7.02 In the event of the termination of this Agreement prior to the completion of the term of employment specified in Article 1, the Employee shall be entitled to the compensation earned by the Employee prior to the date of termination as provided for in this Agreement, computed pro rata up to and including that date. The Employee shall be entitled to no further compensation after the date of termination.

ARTICLE 8

GENERAL PROVISIONS

Notices

8.01 All notices or other communications required under this Agreement may be effected either by personal delivery in writing or by certified mail, return receipt requested.

Notice shall be deemed to have been given when delivered or mailed to the parties at their respective addresses as set forth above or when mailed to the last address provided in writing to the other party by the addressee.

Entirety of Agreement

8.02 This Agreement supersedes all other agreements, either oral or in writing, between the parties to this Agreement, with respect to the employment of the Employee by the Employer. This Agreement contains the entire understanding of the parties and all of the covenants and agreements between the parties with respect to such employment.

Modification

8.03 This Agreement shall not be amended, modified, or altered in any manner except in writing signed by both parties.

Failure to Enforce Not Waiver

8.04 Any failure or delay on the part of either the Employer or the Employee to exercise any remedy or right under this Agreement shall not operate as a waiver. The failure of either party to require performance of any of the terms, covenants, or provisions of this Agreement by the other party shall not constitute a waiver of any of the rights under the Agreement. No forbearance by either party to exercise any rights or privileges under this Agreement shall be construed as a waiver, but all rights and privileges shall continue in effect as if no forbearance had occurred. No covenant or condition of this Agreement may be waived except by the written consent of the waiving party. Any such written waiver of any term of this Agreement shall be effective only in the specific instance and for the specific purpose given.

Law Governing Agreement

8.05 This agreement shall be exclusively governed by and construed in accordance with the laws of the State of Texas.

Partial Invalidity

8.06 If any provision in this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions shall remain in full force and effect, as if this Agreement had been executed without any such invalid provisions having been included.

Executed at Midland, Texas, on this 31st day of August, 2000.

EMPLOYER

WITNESS WITH APPROVAL:
ROTARY GAS SYSTEMS

NATURAL GAS SERVICES GROUP, INC.

/s/ Wayne Vinson
- ---------------------------------
Wayne Vinson, President

By: /s/ Wallace Sparkman

Wallace Sparkman, President

EMPLOYEE

/s/ Alan Kurus

Alan Kurus

RGS COMPRESSOR COMPANY
4 YEAR PROJECTION

EXHIBIT A
TO
Employment Contract
and
Incentive Stock Option

MIDLAND COMPRESSOR COMPANY
Projections 2000

	prototypes	prototype				
	Eight	Nine	Ten	Eleven	Twelve	YTD
REVENUE:						$ 0
SALES - COMPRESSOR UNITS/30						$ 0
SALES - COMPRESSOR UNITS/50						$ 0
SALES - COMPRESSOR UNITS/100						$ 0
SALES - COMPRESSOR UNITS						
SALES - PARTS	--	--	--	--	--	--
DIRECT COST:						
DIRECT LABOR			1,056	1,056	1,056	3,168
DIRECT MATERIAL - UNITS/15			1,190	1,190	1,190	3,570
DIRECT MATERIAL - UNITS/30			2,930	2,930	2,930	8,790
DIRECT MATERIAL - UNITS/50			3,757	3,757	3,757	11,271
DIRECT MATERIAL - UNITS/100			6,521	6,521	6,521	19,563
DIRECT MATERIAL - PARTS			--	--	--	--
FREIGHT-in			990	990	990	2,970
WARRANTY	--	--				--
	--	--	16,444	16,444	16,444	49,332
INDIRECT COSTS:						
SALARIES	--	--	--	--	--	--
SHOP SUPPLIES & SMALL TOOLS		--	1,500	1,500	1,500	4,500
DRAFTING - CONTRACT			3,500	3,500	3,500	10,500
SHIPPING & RECEIVING	--	--	--	--	--	--
	--	--	5,000	5,000	5,000	15,000
TOTAL COST OF SALE	--	--	21,444	21,444	21,444	64,332
GROSS MARGIN	--	--	(21,444)	(21,444)	(21,444)	(64,332)
SELLING EXPENSES:						
SALES - SALARIES		7,500	7,500	7,500	7,500	30,000
ADVERTISING			4,500	5,800	5,800	16,100
EMPLOYEE TRAVEL		2,000	2,000	2,000	2,000	8,000
TELEPHONE		250	500	500	500	1,750
AUTO OPERATING EXPENSES		500	500	500	500	2,000
	--	10,250	15,000	16,300	16,300	57,850
ADMINISTRATIVE EXPENSES:						
SALARIES - ADMINISTRATIVE	7,500	7,500	7,500	7,500	7,500	37,500
PAYROLL TAXES	750	1,500	18,500	1,850	1,850	7,800
RELOCATION EXPENSES	12,500	12,500				25,000
INSURANCE/GROUP HEALTH	500	750	750	750	750	3,500
INSURANCE	1,000	1,000	1,000	1,000	1,000	5,000
	22,250	23,250	11,100	11,100	11,100	78,800
OTHER INCOME & EXPENSE						
DEPRECIATION EXPENSE	(250)	(250)	(250)	(250)	(250)	(1,250)
INTEREST EXPENSE	--	--	--	--	--	--
NET INCOME	(22,500)	(33,750)	(47,794)	(49,094)	(49,094)	(202,232)
CONVERT TO CASH:						
add back depreciation	250	250	250	250	250	1,250
purchase inventory				(82,383)	(82,383)	(164,766)
Office addition	$(30,000)					(30,000)
net cash flow	(52,250)	(33,500)	(47,544)	(131,227)	(131,227)	$(395,748)
accumulated cash	(52,250)	(85,750)	(133,294)	(264,521)	(395,748)	
PAYOUT ON NET PROFITS	(22,500)	(56,250)	(104,044)	(153,138)	(202,232)	
manufacturing cost to build prototypes	--	--	32,544	32,544	32,544	97,632
ADJUSTED NET INCOME	(22,500)	(33,750)	(15,250)	(16,550)	(16,550)	(104,600)

MIDLAND COMPRESSOR COMPANY								
2001 projections	One	Two	Three	Four	Five	Six	Seven	Eight
REVENUE:								
SALES - COMPRESSOR UNITS/10	$ 0	$ 0	$ 0	$ 0	$ 3,982	$ 3,982	$ 3,982	$ 7,964
SALES - COMPRESSOR UNITS/15	$ 0	$ 0	$ 0	$ 0	$ 5,219	$ 10,438	$ 10,438	$ 10,438
SALES - COMPRESSOR UNITS/20	$ 0	$ 0	$ 0	$ 6,079	$ 6,079	$ 6,079	$ 6,079	$ 12,158
SALES - COMPRESSOR UNITS/25	$ 0	$ 0	$ 0	$ 12,796	$ 19,194	$ 19,194	$ 25,592	$ 25,592
SALES - COMPRESSOR UNITS/30	$ 0	$ 13,540	$ 6,770	$ 6,770	$ 20,310	$ 20,310	$ 27,080	$ 27,080
SALES - COMPRESSOR UNITS/40	$ 0	$ 0	$ 0	$ 0	$ 8,897	$ 8,897	$ 17,794	$ 17,794
SALES - COMPRESSOR UNITS/50	$ 18,990	$ 9,495	$ 9,495	$ 18,990	$ 23,485	$ 28,485	$ 37,980	$ 37,980
SALES - COMPRESSOR UNITS/60	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 13,407	$ 26,814
SALES - COMPRESSOR UNITS/75	$ 0	$ 0	$ 0	$ 15,605	$ 15,605	$ 31,210	$ 31,210	$ 62,420
SALES - COMPRESSOR UNITS/100	$ 0	$ 0	$ 0	$ 37,600	$ 37,600	$ 37,600	$ 56,400	$ 75,200
SALES -- PARTS								
	18,990	23,035	16,265	97,840	136,474	166,195	229,962	303,440
DIRECT COST:								
DIRECT LABOR	2,860	$ 2,860	2,860	2,860	2,860	2,860	2,860	2,860
DIRECT MATERIAL - UNITS/10	$ 0	$ 0	$ 0	$ 0	$ 2,750	$ 2,750	$ 2,750	$ 5,500
DIRECT MATERIAL - UNITS/15	$ 0	$ 0	$ 0	$ 0	$ 2,852	$ 5,704	$ 5,704	$ 5,704
DIRECT MATERIAL - UNITS/20	$ 0	$ 0	$ 0	$ 3,250	$ 3,250	$ 3,250	$ 3,250	$ 6,500
DIRECT MATERIAL - UNITS/25	$ 0	$ 0	$ 0	$ 6,654	$ 9,981	$ 9,981	$ 13,308	$ 13,308
DIRECT MATERIAL - UNITS/30	$ 0	$ 7,439	$ 3,719	$ 3,719	$ 11,158	$ 11,158	$ 14,877	$ 14,877
DIRECT MATERIAL - UNITS/40	$ 0	$ 0	$ 0	$ 0	$ 0	$ 5,735	$ 11,470	$ 11,470
DIRECT MATERIAL - UNITS/50	$ 9,622	$ 4,811	$ 4,811	$ 9,622	$ 14,433	$ 15,433	$ 19,244	$ 19,244
DIRECT MATERIAL - UNITS/60	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 9,085	$ 18,170
DIRECT MATERIAL - UNITS/75	$ 0	$ 0	$ 0	$ 8,505	$ 8,505	$ 17,010	$ 17,010	$ 34,020
DIRECT MATERIAL - UNITS/100	$ 0	$ 0	$ 0	$ 18,854	$ 18,854	$ 18,854	$ 28,281	$ 37,708
DIRECT MATERIAL - PARTS	--	--	--	--	--	--	--	--
FREIGHT - in	481	612	427	2,530	3,589	4,444	6,249	8,325
WARRANTY	289	367	256	1,518	2,153	2,656	3,749	4,995
	13,252	16,090	12,073	57,513	80,386	98,845	137,838	182,682
INDIRECT COSTS:								
SALARIES								
SHOP SUPPLIES & SMALL TOOLS	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
DRAFTING -- CONTRACT	--	--	--	--	--	--	--	--
SHIPPING & RECEIVING	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
CONTINGENCIES	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
TOTAL COST OF SALE	18,752	21,590	17,573	63,013	85,886	104,345	143,338	188,182
GROSS MARGIN	238	1,445	(1,308)	34,827	50,588	61,850	86,624	115,258
SELLING EXPENSES:								
SALES - SALARIES	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
ADVERTISING	5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,800
EMPLOYEE TRAVEL	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
TELEPHONE	500	500	500	500	500	500	500	500
AUTO OPERATING EXPENSES	500	500	500	500	500	500	500	500
	16,300	16,300	16,300	16,300	16,300	16,300	16,300	16,300
ADMINISTRATIVE EXPENSES:								
SALARIES - ADMINISTRATIVE	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
PAYROLL TAXES	2,086	2,086	2,086	2,086	2,086	2,086	2,086	2,086
BONUS								
INSURANCE/GROUP HEALTH	750	750	750	750	750	750	750	750
INSURANCE	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	11,336	11,336	11,336	11,336	11,336	11,336	11,336	11,336
OTHER INCOME & EXPENSE								
DEPRECIATION EXPENSE	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
INTEREST EXPENSE	--	--	--	--	--	--	--	--
NET INCOME	(27,648)	(26,191)	(29,194)	6,941	22,702	33,964	58,738	87,372
Convert to cash:								
add back depreciation	250	250	250	250	250	250	250	250
inventory purchases						(56,336)		
net cash flow	(27,398)	(26,191)	(28,944)	7,191	22,952	(22,122)	58,988	87,622
accumulated cash	(423,146)	(449,337)	(478,281)	(471,090)	(448,137)	(470,260)	(411,272)	(323,650)
Payout on net profits	(229,880)	(256,321)	(285,515)	(278,574)	(255,871)	(221,908)	(163,170)	(75,798)

MIDLAND COMPRESSOR COMPANY							
2001 projections	Nine	Ten	Eleven	Twelve	Ytd		SALE PRICE
REVENUE:							
SALES - COMPRESSOR UNITS/10	$ 7,974	$ 7,964	$ 3,982	$ 3,982	$ 43,802	2%	$ 3,982
SALES - COMPRESSOR UNITS/15	$ 15,857	$ 10,438	$ 10,438	$ 5,219	$ 78,285	4%	$ 5,219

SALES - COMPRESSOR UNITS/20	$ 12,158	$ 12,158	$ 12,158	$ 12,158	$ 85,106	4%	$ 6,079
SALES - COMPRESSOR UNITS/25	$ 25,592	$ 31,990	$ 25,592	$ 19,194	$ 204,736	10%	$ 6,398
SALES - COMPRESSOR UNITS/30	$ 27,080	$ 33,850	$ 33,850	$ 20,310	$ 236,950	12%	$ 6,770
SALES - COMPRESSOR UNITS/40	$ 26,691	$ 17,794	$ 8,897	$ 8,897	$ 106,764	5%	$ 8,897
SALES - COMPRESSOR UNITS/50	$ 37,980	$ 47,475	$ 47,475	$ 37,980	$ 360,810	18%	$ 9,495
SALES - COMPRESSOR UNITS/60	$ 40,221	$ 26,814	$ 13,407	$ 13,407	$ 134,070	7%	$13,407
SALES - COMPRESSOR UNITS/75	$ 62,420	$ 46,815	$ 31,210	$ 31,210	$ 327,705	16%	$15,605
SALES - COMPRESSOR UNITS/100	$ 75,200	$ 56,400	$ 56,400	$ 37,600	$ 470,000	23%	$18,800
SALES -- PARTS					$ 0	0%	
	330,963	291,698	243,409	189,957	2,048,228	100%	
DIRECT COST:							
DIRECT LABOR	2,860	2,860	2,860	2,860	34,320	2%	
DIRECT MATERIAL - UNITS/10	$ 5,500	$ 5,500	$ 2,750	$ 2,750	30,250	1%	
DIRECT MATERIAL - UNITS/15	$ 8,556	$ 5,704	$ 5,704	$ 2,852	$ 42,780	2%	
DIRECT MATERIAL - UNITS/20	$ 6,500	$ 6,500	$ 6,500	$ 6,500	$ 45,500	2%	
DIRECT MATERIAL - UNITS/25	$ 13,308	$ 16,635	$ 13,308	$ 9,981	$ 106,464	5%	
DIRECT MATERIAL - UNITS/30	$ 14,877	$ 18,597	$ 18,597	$ 11,158	$ 130,178	6%	
DIRECT MATERIAL - UNITS/40	$ 17,205	$ 11,470	$ 5,735	$ 5,735	$ 68,821	3%	
DIRECT MATERIAL - UNITS/50	$ 19,244	$ 24,055	$ 24,055	$ 19,244	$ 182,818	9%	
DIRECT MATERIAL - UNITS/60	$ 27,255	$ 18,170	$ 9,085	$ 9,085	$ 90,848	4%	
DIRECT MATERIAL - UNITS/75	$ 34,020	$ 25,515	$ 17,010	$ 17,010	$ 178,604	9%	
DIRECT MATERIAL - UNITS/100	$ 37,708	$ 28,281	$ 28,281	$ 18,854	$ 235,678	12%	
DIRECT MATERIAL - PARTS	--	--	--	--	--	0%	
FREIGHT - in	9,209	8,021	6,551	5,158	$ 55,597	3%	
WARRANTY	5,525	4,813	3,931	3,095	$ 33,358	2%	
	201,767	176,121	144,367	114,283	1,235,216	50%	
INDIRECT COSTS:							
SALARIES							
SHOP SUPPLIES & SMALL TOOLS	1,500	1,500	1,500	1,500	18,000	1%	
DRAFTING -- CONTRACT	--	--	--	--	--	0%	
SHIPPING & RECEIVING	3,000	3,000	3,000	3,000	36,000	2%	
CONTINGENCIES	1,000	1,000	1,000	1,000	12,000	1%	
	5,500	5,500	5,500	5,500	66,000	3%	
TOTAL COST OF SALE	207,267	181,621	149,867	119,783	1,301,216	64%	
GROSS MARGIN	123,696	110,077	93,542	70,174	747,012	36%	
SELLING EXPENSES:							
SALES - SALARIES	7,500	7,500	7,500	7,500	90,000	4%	
ADVERTISING	5,800	5,800	5,800	5,800	69,600	3%	
EMPLOYEE TRAVEL	2,000	2,000	2,000	2,000	24,000	1%	
TELEPHONE	500	500	500	500	6,000	0%	
AUTO OPERATING EXPENSES	500	500	500	500	6,000	0%	
	16,300	16,300	16,300	16,300	195,600	10%	
ADMINISTRATIVE EXPENSES:							
SALARIES - ADMINISTRATIVE	7,500	7,500	7,500	7,500	90,000	4%	
PAYROLL TAXES	2,086	2,086	2,086	2,086	25,032	1%	
BONUS	3,335	13,698	10,943	7,048	25,025	2%	
INSURANCE/GROUP HEALTH	750	750	750	750	9,000	0%	
INSURANCE	1,000	1,000	1,000	1,000	12,000	1%	
	14,671	25,034	22,279	18,384	171,057	8%	
OTHER INCOME & EXPENSE							
DEPRECIATION EXPENSE	(250)	(250)	(250)	(250)	(3,000)	0%	
INTEREST EXPENSE	--	--	--	--	--	0%	
NET INCOME	92,474	68,492	54,713	35,240	377,355	18%	
Convert to cash:							
add back depreciation	250	250	250	250	3,000		
inventory purchases							
net cash flow	92,724	68,742	54,963	35,490	324,019		
accumulated cash	(230,925)	(162,183)	(107,219)	(71,729)			
Payout on net profits	16,677						

(1) because of increase volume standing inventory also increase beginning inventory is $164,766 and ending inventory would need to be $221,102

MIDLAND COMPRESSOR COMPANY

2002 projections	One	Two	Three	Four	Five	Six	Seven	Eight
REVENUE:								
SALES - COMPRESSOR UNITS/10	$ 3,982	$ 3,982	$ 0	$ 0	$ 3,982	$ 7,964	$ 11,946	$ 11,946
SALES - COMPRESSOR UNITS/15	$ 5,219	$ 5,219	$ 5,219	$ 0	$ 10,438	$ 15,657	$ 20,876	$ 26,095
SALES - COMPRESSOR UNITS/20	$ 6,079	$ 6,079	$ 0	$ 0	$ 6,079	$ 12,158	$ 18,237	$ 18,237
SALES - COMPRESSOR UNITS/25	$ 12,796	$ 12,796	$ 6,398	$ 6,398	$ 12,796	$ 31,990	$ 31,990	$ 38,388
SALES - COMPRESSOR UNITS/30	$ 13,540	$ 13,540	$ 6,770	$ 6,770	$ 13,540	$ 27,080	$ 33,850	$ 40,620
SALES - COMPRESSOR UNITS/40	$ 8,897	$ 8,897	$ 8,897	$ 0	$ 8,897	$ 8,897	$ 17,794	$ 17,794
SALES - COMPRESSOR UNITS/50	$ 28,485	$ 28,485	$ 9,495	$ 9,495	$ 18,990	$ 37,980	$ 56,970	$ 56,970
SALES - COMPRESSOR UNITS/60	$ 13,407	$ 13,407	$ 0	$ 0	$ 26,814	$ 13,407	$ 26,814	$ 26,814
SALES - COMPRESSOR UNITS/75	$ 31,210	$ 15,605	$ 15,605	$ 15,605	$ 31,210	$ 46,815	$ 62,420	$ 78,025
SALES - COMPRESSOR UNITS/100	$ 37,600	$ 37,600	$ 18,800	$ 18,800	$ 37,600	$ 56,500	$ 94,000	$ 94,000
SALES - PARTS	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	$ 161,215	145,610	71,184	57,068	170,346	258,348	374,897	408,889
DIRECT COST:								
DIRECT LABOR	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860
DIRECT MATERIAL - UNITS/10	$ 2,750	$ 2,750	$ 0	$ 0	$ 2,750	$ 5,500	$ 8,250	$ 8,250
DIRECT MATERIAL - UNITS/15	$ 2,852	$ 2,852	$ 2,852	$ 0	$ 5,704	$ 8,556	$ 11,408	$ 14,260
DIRECT MATERIAL - UNITS/20	$ 3,250	$ 3,250	$ 0	$ 0	$ 3,250	$ 6,500	$ 9,750	$ 9,750
DIRECT MATERIAL - UNITS/25	$ 6,654	$ 6,654	$ 3,327	$ 3,327	$ 6,654	$ 16,635	$ 16,635	$ 19,962
DIRECT MATERIAL - UNITS/30	$ 7,439	$ 7,439	$ 3,719	$ 3,719	$ 7,439	$ 14,877	$ 18,597	$ 22,316
DIRECT MATERIAL - UNITS/40	$ 5,735	$ 5,735	$ 5,735	$ 0	$ 5,735	$ 5,735	$ 11,470	$ 11,470
DIRECT MATERIAL - UNITS/50	$ 14,433	$ 14,433	$ 4,811	$ 4,811	$ 9,622	$ 19,244	$ 28,866	$ 28,866
DIRECT MATERIAL - UNITS/60	$ 9,085	$ 9,985	$ 0	$ 0	$ 18,170	$ 9,085	$ 18,170	$ 18,170
DIRECT MATERIAL - UNITS/75	$ 17,010	$ 8,505	$ 8,505	$ 8,505	$ 17,010	$ 25,515	$ 34,020	$ 42,525
DIRECT MATERIAL - UNITS/100	$ 18,854	$ 18,854	$ 9,427	$ 9,427	$ 18,854	$ 28,281	$ 47,136	$ 47,136
DIRECT MATERIAL - PARTS	--	--	--	--	--	--	--	--
FREIGHT - in	4,403	3,978	1,919	1,489	4,759	6,996	10,215	11,135
WARRANTY	2,642	2,387	1,151	894	2,856	4,198	6,129	6,681
	97,967	88,781	44,307	35,033	105,663	153,983	223,505	243,381
INDIRECT COSTS:								
SALARIES	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750
SHOP SUPPLIES & SMALL TOOLS	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
DRAFTING - CONTRACT	--	--	--	--	--	--		
SHIPPING & RECEIVING	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
CONTINGENCIES	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	9,250	9,250	9,250	9,250	9,250	9,250	9,250	9,250
TOTAL COST OF SALE	107,217	98,031	53,557	44,283	114,913	163,233	232,755	252,631
GROSS MARGIN	53,998	47,579	17,627	12,785	55,433	95,115	142,142	156,258
SELLING EXPENSES:								
SALES - SALARIES	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
ADVERTISING	5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,800
EMPLOYEE TRAVEL	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
TELEPHONE	500	500	500	500	500	500	500	500
AUTO OPERATING EXPENSES	500	500	500	500	500	500	500	500
	16,300	16,300	16,300	16,300	16,300	16,300	16,300	16,300
ADMINISTRATIVE EXPENSES:								
SALARIES - ADMINISTRATIVE	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
PAYROLL TAXES	2,461	2,461	2,461	2,461	2,461	2,461	2,461	2,461
BONUS	4,206	3,136	(1,856)	(2,663)	4,445	11,059	18,897	21,250
INSURANCE/GROUP HEALTH	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
INSURANCE	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	16,417	15,347	10,355	9,548	16,656	23,270	31,108	33,461
OTHER INCOME & EXPENSE								
DEPRECIATION EXPENSE	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
INTEREST EXPENSE	--	--	--	--	--	--	--	--
NET INCOME	21,031	15,681	(9,278)	(13,313)	22,227	55,295	94,484	106,248
Convert to cash:								
add back depreciation	250	250	250	250	250	250	250	250
inventory purchases								
net cash flow	21,281	15,931	(9,028)	(13,063)	22,477	55,545	94,734	106,498
accumulated cash	(50,448)	(34,517)	(43,545)	(56,608)	(34,131)	21,414	116,149	222,646

MIDLAND COMPRESSOR COMPANY

2002 projections	Nine	Ten	Eleven	Twelve	Ytd		SALE PRICE
REVENUE:							
SALES - COMPRESSOR UNITS/10	$ 7,964	$ 3,982	$ 3,982	$ 3,982	$ 43,802	2%	$ 3,982
SALES - COMPRESSOR UNITS/15	$ 20,876	$ 15,657	$ 10,438	$ 10,438	$ 78,285	3%	$ 5,219
SALES - COMPRESSOR UNITS/20	$ 18,237	$ 12,158	$ 6,079	$ 6,079	$ 85,106	3%	$ 6,079
SALES - COMPRESSOR UNITS/25	$ 38,388	$ 38,388	$ 31,990	$ 25,592	$ 204,736	7%	$ 6,398
SALES - COMPRESSOR UNITS/30	$ 40,620	$ 40,620	$ 33,850	$ 27,080	$ 216,640	7%	$ 6,770

SALES - COMPRESSOR UNITS/40	$ 17,794	$ 8,897	$ 8,897	$ 8,897	$ 106,764	4%	$ 8,897
SALES - COMPRESSOR UNITS/50	$ 56,970	$ 47,475	$ 37,980	$ 37,980	$ 322,830	11%	$ 9,495
SALES - COMPRESSOR UNITS/60	$ 26,814	$ 26,814	$ 13,407	$ 13,407	$ 134,070	5%	$13,407
SALES - COMPRESSOR UNITS/75	$ 62,420	$ 62,420	$ 46,815	$ 31,210	$ 327,705	11%	$15,605
SALES - COMPRESSOR UNITS/100	$ 94,000	$ 94,000	$ 94,000	$ 56,400	$ 470,000	16%	$18,800
SALES - PARTS	$ 0	$ 0	$ 0	$ 0	$ 0	0%	
	384,083	350,411	287,438	221,065	2,890,554	100%	
DIRECT COST:							
DIRECT LABOR	2,860	2,860	2,860	2,860	34,320	1%	
DIRECT MATERIAL - UNITS/10	$ 5,500	$ 2,750	$ 2,750	$ 2,750	44,000	2%	
DIRECT MATERIAL - UNITS/15	$ 11,408	$ 8,556	$ 5,704	$ 5,704	$ 79,856	3%	
DIRECT MATERIAL - UNITS/20	$ 9,750	$ 6,500	$ 3,250	$ 3,250	$ 58,500	2%	
DIRECT MATERIAL - UNITS/25	$ 19,962	$ 19,962	$ 16,635	$ 13,250	$ 149,715	5%	
DIRECT MATERIAL - UNITS/30	$ 22,316	$ 22,316	$ 18,597	$ 14,877	$ 163,652	6%	
DIRECT MATERIAL - UNITS/40	$ 11,470	$ 5,735	$ 5,735	$ 5,735	$ 80,291	3%	
DIRECT MATERIAL - UNITS/50	$ 28,866	$ 24,055	$ 19,244	$ 19,244	$ 216,495	7%	
DIRECT MATERIAL - UNITS/60	$ 18,170	$ 18,170	$ 9,085	$ 9,085	$ 136,273	5%	
DIRECT MATERIAL - UNITS/75	$ 34,020	$ 34,020	$ 25,515	$ 17,010	$ 272,158	9%	
DIRECT MATERIAL - UNITS/100	$ 47,136	$ 47,136	$ 47,136	$ 28,281	$ 267,657	13%	
DIRECT MATERIAL - PARTS	--	--	--	--	$ 0	0%	
FREIGHT - in	10,430	9,460	7,683	5,962	$ 78,430	3%	
WARRANTY	6,258	5,676	4,610	3,577	$ 47,058	2%	
	228,145	207,195	168,802	131,644	1,728,405	60%	
INDIRECT COSTS:							
SALARIES	3,750	3,750	3,750	3,750	45,000	2%	
SHOP SUPPLIES & SMALL TOOLS	1,500	1,500	1,500	1,500	18,000	1%	
DRAFTING - CONTRACT					--	0%	
SHIPPING & RECEIVING	3,000	3,000	3,000	3,000	36,000	1%	
CONTINGENCIES	1,000	1,000	1,000	1,000	12,000	0%	
	9,250	9,250	9,250	9,250	111,000	4%	
TOTAL COST OF SALE	237,395	216,445	178,052	140,894	1,839,405	64%	
GROSS MARGIN	146,688	133,966	109,386	80,171	1,051,149	36%	
SELLING EXPENSES:							
SALES - SALARIES	7,500	7,500	7,500	7,500	90,000	3%	
ADVERTISING	5,800	5,800	5,800	5,800	69,600	2%	
EMPLOYEE TRAVEL	2,000	2,000	2,000	2,000	24,000	1%	
TELEPHONE	500	500	500	500	6,000	0%	
AUTO OPERATING EXPENSES	500	500	500	500	6,000	0%	
	16,300	16,300	16,300	16,300	195,600	7%	
ADMINISTRATIVE EXPENSES:							
SALARIES - ADMINISTRATIVE	7,500	7,500	7,500	7,500	90,000	3%	
PAYROLL TAXES	2,461	2,461	2,461	2,461	29,532	1%	
BONUS	19,654	17,534	13,437	8,568	117,669	4%	
INSURANCE/GROUP HEALTH	1,250	1,250	1,250	1,250	15,000	1%	
INSURANCE	1,000	1,000	1,000	1,000	12,000	0%	
	31,865	29,745	25,648	20,779	264,201	9%	
OTHER INCOME & EXPENSE							
DEPRECIATION EXPENSE	(250)	(250)	(250)	(250)	(3,000)	0%	
INTEREST EXPENSE	--	--	--	--	--	0%	
NET INCOME	98,272	87,671	67,187	42,842	588,347	20%	
Convert to cash:							
add back depreciation	250	250	250	250			
inventory purchases							
net cash flow	98,522	87,921	67,437	43,092			
accumulated cash	321,169	409,089	476,527	519,618			

MIDLAND COMPRESSOR COMPANY								
2003 projections	One	Two	Three	Four	Five	Six	Seven	Eight
REVENUE:								
SALES - COMPRESSOR UNITS/10	$ 3,982	$ 3,982	$ 3,982	$ 3,982	$ 7,964	$ 7,964	$ 11,946	$ 11,946
SALES - COMPRESSOR UNITS/15	$ 5,219	$ 5,219	$ 5,219	$ 5,219	$ 10,438	$ 15,657	$ 20,876	$ 26,095
SALES - COMPRESSOR UNITS/20	$ 6,079	$ 6,079	$ 6,079	$ 6,079	$ 6,079	$ 12,158	$ 18,237	$ 24,316
SALES - COMPRESSOR UNITS/25	$ 12,796	$ 12,796	$ 6,398	$ 12,796	$ 25,592	$ 31,990	$ 38,388	$ 44,786
SALES - COMPRESSOR UNITS/30	$ 13,540	$ 13,540	$ 6,770	$ 20,310	$ 27,080	$ 40,620	$ 47,390	$ 54,160
SALES - COMPRESSOR UNITS/40	$ 8,897	$ 8,897	$ 8,897	$ 8,897	$ 8,897	$ 17,794	$ 26,691	$ 17,794
SALES - COMPRESSOR UNITS/50	$ 28,485	$ 18,990	$ 9,495	$ 28,485	$ 28,485	$ 47,475	$ 66,465	$ 75,960
SALES - COMPRESSOR UNITS/60	$ 13,407	$ 13,407	$ 13,407	$ 13,407	$ 13,407	$ 13,407	$ 26,814	$ 26,814
SALES - COMPRESSOR UNITS/75	$ 31,210	$ 15,605	$ 15,605	$ 31,210	$ 46,815	$ 62,420	$ 78,025	$ 93,630
SALES - COMPRESSOR UNITS/100	$ 37,600	$ 18.,800	$ 18,800	$ 37,600	$ 56,400	$ 75,200	$ 112,800	$ 131,600
SALES -- PARTS	--	--	--	--	--	--	--	--
	161,215	117,315	94,652	167,985	231,157	324,685	447,632	507,101
DIRECT COST:								
DIRECT LABOR	$ 2,860	$ 2,860	$ 2,860	$ 2,860	$ 2,860	$ 2,860	$ 2,860	$ 2,860
DIRECT MATERIAL - UNITS/10	$ 2,750	$ 2,750	$ 2,750	$ 2,750	$ 5,500	$ 5,500	$ 8,250	$ 8,250
DIRECT MATERIAL - UNITS/15	$ 2,852	$ 2,852	$ 2,852	$ 2,852	$ 5,704	$ 8,556	$ 11,408	$ 14,260
DIRECT MATERIAL - UNITS/20	$ 3,250	$ 3,250	$ 3,250	$ 3,250	$ 3,250	$ 6,500	$ 9,750	$ 13,000
DIRECT MATERIAL - UNITS/25	$ 6,654	$ 6,654	$ 3,327	$ 6,654	$ 13,308	$ 16,635	$ 19,962	$ 23,289
DIRECT MATERIAL - UNITS/30	$ 7,439	$ 7,439	$ 3,719	$ 11,158	$ 14,877	$ 22,316	$ 26,036	$ 29,755
DIRECT MATERIAL - UNITS/40	$ 5,735	$ 5,735	$ 5,735	$ 5,735	$ 5,735	$ 11,470	$ 17,205	$ 11,470
DIRECT MATERIAL - UNITS/50	$ 14,433	$ 9,622	$ 4,811	$ 14,433	$ 14,433	$ 24,055	$ 33,677	$ 38,488
DIRECT MATERIAL - UNITS/60	$ 9,085	$ 9,085	$ 9,085	$ 9,085	$ 9,085	$ 9,085	$ 18,170	$ 18,170
DIRECT MATERIAL - UNITS/75	$ 17,010	$ 8,505	$ 8,505	$ 17,010	$ 25,515	$ 34,020	$ 42,525	$ 51,030
DIRECT MATERIAL - UNITS/100	$ 18,654	$ 9,427	$ 9,427	$ 18,854	$ 28,281	$ 37,708	$ 56,563	$ 65,990
DIRECT MATERIAL - PARTS	--	--	--	--	--	--	--	--
FREIGHT - in	$ 4,403	$ 3,266	$ 2,673	$ 4,589	$ 6,284	$ 8,792	$ 12,177	$ 13,685
WARRANTY	$ 2,642	$ 1,960	$ 1,604	$ 2,753	$ 3,771	$ 5,275	$ 7,306	$ 8,211
	97,967	73,404	60,598	101,984	136,604	192,773	265,888	298,457
INDIRECT COSTS:								
SALARIES	$ 3,750	$ 3,750	$ 3,750	$ 3,750	$ 3,750	$ 3,750	$ 3,750	$ 3,750
SHOP SUPPLIES & SMALL TOOLS	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500
DRAFTING -- CONTRACT	--	--	--	--	--	--	--	--
SHIPPING & RECEIVING	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
CONTINGENCIES	$ 1,000	$ 1,960	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
	9,250	9,250	9,250	9,250	9,250	9,250	9,250	9,250
TOTAL COST OF SALE	107,217	82,654	58,848	111,234	147,854	202,023	275,138	307,707
GROSS MARGIN	53,998	34,661	24,804	56,751	83,303	122,662	172,494	199,394
SELLING EXPENSES:								
SALES - SALARIES	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,500
ADVERTISING	$ 5,800	$ 5,800	$ 5,800	$ 5,800	$ 5,800	$ 5,800	$ 5,800	$ 5,800
EMPLOYEE TRAVEL	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000
TELEPHONE	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500
AUTO OPERATING EXPENSES	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500
	16,300	16,300	16,300	16,300	16,300	16,300	16,300	16,300
ADMINISTRATIVE EXPENSES:								
SALARIES - ADMINISTRATIVE	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,.500
PAYROLL TAXES	$ 2,461	$ 5,800	$ 2,461	$ 2,461	$ 2,461	$ 2,461	$ 2,461	$ 2,461
BONUS	$ 4,123	$ 2,000	$ (743)	$ 4,582	$ 9,007	$ 15,567	$ 23,872	$ 28,355
INSURANCE/GROUP HEALTH	$ 1,250	500	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250
INSURANCE	$ 1,500	500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500
	16,834	13,611	11,968	17,293	21,718	28,278	36,583	41,066
OTHER INCOME & EXPENSE								
DEPRECIATION EXPENSE	$ (250)	$ (250)	$ (250)	$ (250)	$ (250)	$ (250)	$ (250)	$ (250)
INTEREST EXPENSE	--	--	--	--	--	--	--	--
NET INCOME	20,614	4,500	(3,714)	22,909	45,035	77,834	119,360	141,777
Convert to cash:								
add back depreciation	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250
inventory purchases								
net cash flow	20,864	4,750	(3,464)	23,159	564,927	78,084	119,610	142,027
accumulated cash	540,483	545,232	541,768	564,927	610,212	688,296	807,906	949,934

MIDLAND COMPRESSOR COMPANY							
2003 projections	Nine	Ten	Eleven	Twelve	Ytd		SALE PRICE
REVENUE:							
SALES - COMPRESSOR UNITS/10	$ 7,964	$ 7,964	$ 7,964	$ 7,964	$ 83,622	2%	$ 3,982
SALES - COMPRESSOR UNITS/15	$ 20,876	$ 20,876	$ 10,438	$ 10,438	$ 156,570	4%	$ 5,219
SALES - COMPRESSOR UNITS/20	$ 18,237	$ 12,158	$ 12,158	$ 12,158	$ 139,817	4%	$ 6,079

SALES - COMPRESSOR UNITS/25	$ 51,184	$ 47,786	$ 38,388	$ 31,990	$ 351,890	10%	$ 6,398
SALES - COMPRESSOR UNITS/30	$ 54,160	$ 47,390	$ 40,620	$ 40,620	$ 406,200	11%	$ 6,770
SALES - COMPRESSOR UNITS/40	$ 17,794	$ 17,794	$ 17,794	$ 8,897	$ 169,043	5%	$ 8,897
SALES - COMPRESSOR UNITS/50	$ 75,960	$ 75,960	$ 66,465	$ 56,970	$ 579,195	16%	$ 9,495
SALES - COMPRESSOR UNITS/60	$ 28,814	$ 26,814	$ 13,407	$ 13,407	$ 214,512	6%	$13,407
SALES - COMPRESSOR UNITS/75	$ 78,025	$ 78,025	$ 62,400	$ 46,815	$ 639,805	17%	$15,605
SALES - COMPRESSOR UNITS/100	$ 131,600	$ 131,600	$ 112,800	$ 94,000	$ 958,800	26%	$18,800
SALES -- PARTS	--	--	--	--	--	0%	
	482,614	483,367	382,454	319,277	3,699,454	100%	
DIRECT COST:							
DIRECT LABOR	$ 2,860	$ 2,860	$ 2,860	$ 2,860	$ 34,320	1%	
DIRECT MATERIAL - UNITS/10	$ 5,500	$ 5,500	$ 5,500	$ 2,750	$ 57,750	2%	
DIRECT MATERIAL - UNITS/15	$ 11,408	$ 11,408	$ 5,704	$ 5,704	$ 85,560	2%	
DIRECT MATERIAL - UNITS/20	$ 9,750	$ 6,500	$ 6,500	$ 6,500	$ 74,750	2%	
DIRECT MATERIAL - UNITS/25	$ 26,616	$ 23,289	$ 19,962	$ 16,635	$ 182,985	5%	
DIRECT MATERIAL - UNITS/30	$ 29,755	$ 26,036	$ 22,316	$ 22,316	$ 223,162	6%	
DIRECT MATERIAL - UNITS/40	$ 11,470	$ 11,470	$ 11,470	$ 5,735	$ 108,967	3%	
DIRECT MATERIAL - UNITS/50	$ 38,488	$ 38,488	$ 33,677	$ 28,866	$ 293,471	8%	
DIRECT MATERIAL - UNITS/60	$ 18,170	$ 18,170	$ 9,085	$ 9,085	$ 145,358	4%	
DIRECT MATERIAL - UNITS/75	$ 42,525	$ 42,525	$ 34,020	$ 25,515	$ 348,703	9%	
DIRECT MATERIAL - UNITS/100	$ 65,990	$ 65,990	$ 56,563	$ 47,136	$ 480,782	13%	
DIRECT MATERIAL - PARTS	--	--	--	--	--	0%	
FREIGHT - in	$ 12,984	$ 12,469	$ 10,240	$ 8,512	$ 100,074	3%	
WARRANTY	$ 7,790	$ 7,481	$ 6,144	$ 5,107	$ 60,045	2%	
	283,305	272,185	224,040	186,721	2,195,926	59%	
INDIRECT COSTS:							
SALARIES	$ 3,750	$ 3,750	$ 3,750	$ 3,750	$ 45,000	1%	
SHOP SUPPLIES & SMALL TOOLS	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 18,000	0%	
DRAFTING -- CONTRACT	--	--	--	--	--	0%	
SHIPPING & RECEIVING	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 36,000	1%	
CONTINGENCIES	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 12,000	0%	
	9,250	9,250	9,250	9,250	111,000	3%	
TOTAL COST OF SALE	292,555	281,435	233,290	195,971	2,306,926	62%	
GROSS MARGIN	190,059	181,932	149,164	123,306	1,392,528	38%	
SELLING EXPENSES:							
SALES - SALARIES	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 90,000	2%	
ADVERTISING	$ 5,800	$ 5,800	$ 5,800	$ 5,800	$ 69,600	2%	
EMPLOYEE TRAVEL	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 24,000	1%	
TELEPHONE	$ 500	$ 500	$ 500	$ 500	$ 6,000	0%	
AUTO OPERATING EXPENSES	$ 500	$ 500	$ 500	$ 500	$ 6,000	0%	
	16,300	16,300	16,300	16,300	195,600	5%	
ADMINISTRATIVE EXPENSES:							
SALARIES - ADMINISTRATIVE	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 90,000	2%	
PAYROLL TAXES	$ 2,461	$ 2,461	$ 2,461	$ 2,461	$ 29,532	1%	
BONUS	$ 26,800	$ 25,445	$ 19,984	$ 15,674	$ 173,566	5%	
INSURANCE/GROUP HEALTH	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 15,000	0%	
INSURANCE	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 18,000	0%	
	39,511	38,156	32,695	28,385	326,098	9%	
OTHER INCOME & EXPENSE							
DEPRECIATION EXPENSE	$ (250)	$ (250)	$ (250)	$ (250)	$ (3,000)	0%	
INTEREST EXPENSE	--	--	--	--		0%	
NET INCOME	133,998	127,226	99,919	78,371	867,830	23%	
Convert to cash:							
add back depreciation	$ 250	$ 250	$ 250	$ 250			
inventory purchases							
net cash flow	132,248	127,476	100,169	78,621			
accumulated cash	1,084,182	1,211,658	1,311,827	1,390,448			

SALES IN UNITS
year 2001

	ONE	TWO	THREE	FOUR	FIVE	SIX	SEVEN	EIGHT	NINE	TEN	ELEVEN	TWELVE	YTD
SALES - COMPRESSOR UNITS\10				0	1	1	1	2	2	2	1	1	11
SALES - COMPRESSOR UNITS\15				0	1	2	2	2	3	2	2	1	15
SALES - COMPRESSOR UNITS\20				1	1	1	1	2	2	2	2	2	14
SALES - COMPRESSOR UNITS\25				2	3	3	4	4	4	5	4	3	32
SALES - COMPRESSOR UNITS\30		2	1	1	3	3	4	4	4	5	5	3	32
SALES - COMPRESSOR UNITS\40				0		1	2	2	3	2	1	1	12
SALES - COMPRESSOR UNITS\50	2	1	1	2	3	3	4	4	4	5	5	4	34
SALES - COMPRESSOR UNITS\60				0			1	2	3	2	1	1	10
SALES - COMPRESSOR UNITS\75				1	1	2	2	4	4	3	2	2	21
SALES - COMPRESSOR UNITS\100				2	2	2	3	4	4	3	3	2	25
SALES - PARTS													0
	2	3	2	9	15	18	24	30	33	31	26	20	213

SALES IN UNITS
year 2002

	ONE	TWO	THREE	FOUR	FIVE	SIX	SEVEN	EIGHT	NINE	TEN	ELEVEN	TWELVE	YTD
SALES - COMPRESSOR UNITS\10	1	1	0	0	1	2	3	3	2	1	1	1	14
SALES - COMPRESSOR UNITS\15	2	2	2	0	2	3	4	5	4	3	2	2	25
SALES - COMPRESSOR UNITS\20	1	1	0	0	1	2	3	3	3	2	1	1	16
SALES - COMPRESSOR UNITS\25	2	2	1	1	2	5	5	6	6	6	5	4	40
SALES - COMPRESSOR UNITS\30	2	2	1	1	2	4	5	6	6	6	5	4	39
SALES - COMPRESSOR UNITS\40	1	1	1	0	1	1	2	2	2	1	1	1	11
SALES - COMPRESSOR UNITS\50	3	3	1	1	2	4	6	6	6	5	4	4	38
SALES - COMPRESSOR UNITS\60	1	1	0	0	2	1	2	2	2	2	1	1	13
SALES - COMPRESSOR UNITS\75	2	1	1	1	2	3	4	5	4	4	3	2	28
SALES - COMPRESSOR UNITS\100	2	2	1	1	2	3	5	5	5	5	5	3	34
SALES - PARTS													0
	16	15	7	5	17	28	39	43	40	35	28	23	296

SALES IN UNITS
year 2003

	ONE	TWO	THREE	FOUR	FIVE	SIX	SEVEN	EIGHT	NINE	TEN	ELEVEN	TWELVE	YTD
SALES - COMPRESSOR UNITS\10	1	1	1	1	2	2	3	3	2	2	2	1	18
SALES - COMPRESSOR UNITS\15	1	1	1	1	2	3	4	5	4	4	2	2	27
SALES - COMPRESSOR UNITS\20	1	1	1	1	1	2	3	4	3	2	2	2	20
SALES - COMPRESSOR UNITS\25	2	2	1	2	4	5	6	7	8	7	6	5	50
SALES - COMPRESSOR UNITS\30	2	2	1	3	4	6	7	8	8	7	6	6	55
SALES - COMPRESSOR UNITS\40	1	1	1	1	1	2	3	2	2	2	2	1	16
SALES - COMPRESSOR UNITS\50	3	2	1	3	3	5	7	8	8	8	7	6	55
SALES - COMPRESSOR UNITS\60	1	1	1	1	1	1	2	2	2	2	1	1	13
SALES - COMPRESSOR UNITS\75	2	1	1	2	3	4	5	6	5	5	4	3	37
SALES - COMPRESSOR UNITS\100	2	1	1	2	3	4	6	7	7	7	6	5	47
SALES - PARTS													0
	16	13	10	17	24	34	46	52	49	46	38	32	377

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DIRECT MATERIAL COST AS A PERCENTAGE OF SALES

DIRECT MATERIAL-UNITS\10	69.06%	69.06%	69.06%	69.06%	69.06%	69.06%	69.06%	69.06%	69.06%	69.06%	69.06%	69.06%
DIRECT MATERIAL-UNITS\15	54.65%	54.65%	54.65%	54.65%	54.65%	54.65%	54.65%	54.65%	54.65%	54.65%	54.65%	54.65%
DIRECT MATERIAL-UNITS\20	53.46%	53.46%	53.46%	53.46%	53.46%	53.46%	53.46%	53.46%	53.46%	53.46%	53.46%	53.46%
DIRECT MATERIAL-UNITS\25	52.00%	52.00%	52.00%	52.00%	52.00%	52.00%	52.00%	52.00%	52.00%	52.00%	52.00%	52.00%
DIRECT MATERIAL-UNITS\30	54.94%	54.94%	54.94%	54.94%	54.94%	54.94%	54.94%	54.94%	54.94%	54.94%	54.94%	54.94%
DIRECT MATERIAL-UNITS\40	61.23%	61.23%	61.23%	61.23%	61.23%	61.23%	61.23%	61.23%	61.23%	61.23%	61.23%	61.23%
DIRECT MATERIAL-UNITS\50	50.67%	50.67%	50.67%	50.67%	50.67%	50.67%	50.67%	50.67%	50.67%	50.67%	50.67%	50.67%
DIRECT MATERIAL-UNITS\60	63.88%	63.88%	63.88%	63.88%	63.88%	63.88%	63.88%	63.88%	63.88%	63.88%	63.88%	63.88%
DIRECT MATERIAL-UNITS\75	54.50%	54.50%	54.50%	54.50%	54.50%	54.50%	54.50%	54.50%	54-50%	54.50%	54.50%	54.50%
DIRECT MATERIAL-UNITS\100	50.14%	50.14%	50.14%	50.14%	50.14%	50.14%	50.14%	50.14%	50.14%	50.14%	50.14%	50.14%

MIDLAND COMPRESSOR COMPANY BASIC ASSUMPTIONS

1. Sales are tied to the quantity table on page 5.

2. Direct material cost have a range from 69.6% for the 10 HP unit to 50.14% of rhte 100 HP unit. See table on page 4.

3. At the beginning of project personnel will consist of: one salesman, one design engineer and one shop hand. Beginning in January 2001 we will add a shipping and receiving clerk and in January 2002 we will add a second shop hand.

4. An addition for office space will be a part of initial startup cost. We have included $30,000 dollar for this expenditure.

5. A bonus amount has been included which is calculated and accrued based upon the agreements with Mark Clardy and Alan Kurus. The Bonus calculated in the attached spreadsheet represents 20% of the net income. This excludes expenditures for inventory and office addition. In this scenario payout occurs in Sept 2001.

6. The initial inventory expenditure is $164,766. Inventory Levels will fluctuate in relation to production, therefore the amount of inventory on hand will increase over time. We have added an additional amount in June 2001 to compensate for this increase. A substantial line of credit will be needed to fund this fluctuation in inventory. For instance inventory level for the year 2001 will range from $600,616 in Sept 20 $22,1102 by year end.

7. Total capital outlay for this project is $480,281 as outlined below. But payout is based upon recovery of operating losses only of $285,515.

operating loss thru March 2001	$285,515
inventory expenditure	$164,766
property improvements	$ 30,000
	--------
capital outlay	$480,281
	========

Exhibit 10.06

EMPLOYMENT CONTRACT

This EMPLOYMENT CONTRACT ("Agreement") is made and entered into as of the 1st day of January, 1999, by and between NATURAL GAS SERVICES GROUP, INC., a Colorado corporation, whose address is 2911 South County Road 1260, Midland, Texas 79706, hereinafter referred to in this Agreement as the "Employer," and WAYNE VINSON, whose address is 4404 Lennox, Midland, Texas 79707, hereinafter referred to in this Agreement as "the Employee."

ARTICLE 1
TERM OF EMPLOYMENT

1.01. The Employer employs the Employee, and the Employee accepts employment with the Employer, for the three-year period from January 1, 1999, through December 31, 2001, and thereafter until terminated by either party upon ninety (90) days advance written notice to the other party (herein referred to as the "term of employment"). However, the term of employment may be terminated earlier as provided in Article 5.

ARTICLE 2
DUTIES OF EMPLOYEE

2.01. BASIC DUTIES. The Employee is hired as President of Hi-Tech Compressor Company, L.C., a subsidiary of the Employer. The Employee shall perform all services, acts, or things necessary and advisable to manage and conduct the business of the Employer, subject to the policies set by the board of directors from time to time.

The Employee agrees to devote substantially all of his entire productive time, ability and attention to the business of the Employer during the term of employment. The services of the Employee shall be performed at such locations and at such times as shall be directed by the board of directors from time to time. The Employee shall to the best of his ability make every effort to promote the business of the Employer.

2.02. EMPLOYER TO PROVIDE TRANSPORTATION AND ORDINARY EXPENSES. The Employer agrees to provide the Employee use of a properly-registered vehicle selected by the Employer for all of the Employee's transportation needs required for the performance of the Employee's duties under this Agreement. The Employee may provide a vehicle of his choice, in which case the Employer will pay an allowance of $400.00 per month. The Employer shall also pay for or reimburse the Employee for all reasonable and necessary gasoline oil, and automobile maintenance expenses incurred by the Employee in the performance of his duties under this Agreement.

ARTICLE 3
COMPENSATION OF EMPLOYEE

3.01. BASIC SALARY. The Employee shall receive a salary as established from time to time by the Directors, but in no event shall the annual salary be less than Sixty Thousand Dollars ($60,000.00), paid biweekly. If the Employee voluntarily terminates employment prior to

December 31, 2001 or is terminated pursuant to Article 5 prior to December 31, 2001, or if the Employee's employment is terminated by either party at any time after December 31, 2001, the Employee's salary and his incentive bonus (as provided under section 3.02 hereof) shall be prorated and paid only to the date of termination of employment.

3.02. INCENTIVE BONUS. The Employee shall receive an annual incentive bonus during the term of employment equal to a percentage of the net pre-tax profits of Hi-Tech Compressor Company, L.C. as shown by financial income statements prepared in accordance with generally accepted accounting procedures. Provided, however, that such incentive bonus shall not be greater than 150% of the gross salary during the contract year. Such incentive bonus shall be determined for each annual period commencing as of January 1 and ending as of December 31 (the "Contract Year"), with payment to the Employee to be made within ninety (90) days following the end of such annual period. The incentive bonus shall be Five and Seven-Tenths Percent (5.7%) of the net pre-tax profits. Equipment manufactured for transfer to a related leasing entity shall be reflected as a sale at a fair-market value as determined by the Directors and the Employee.

3.03. VACATION AND SICK PAY. After the completion of six (6) months of service in the employ of the Employer, the Employee shall be entitled to an annual paid vacation of fifteen (15) business days with full pay. Such vacation shall be taken at any time selected by the Employee and approved by the Employer. In addition, the Employee shall be entitled to six (6) days per year as sick leave with pay. Neither vacation time nor sick leave may be accumulated, and if not used during the year in which it is granted, it shall be deemed to have been waived by the Employee.

3.04. HOLIDAYS. The Employee shall be entitled to a holiday with full pay on New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and/or any other day designated as a holiday by the Employer.

3.05. OTHER BENEFITS. All base compensation provided for in this Agreement shall be exclusive of any benefits which the board of directors of the Employer may elect, in its sole and complete discretion, after the date hereof to make available to the Employee under any bonus plan, profit sharing trust, pension plan, deferred compensation plan, hospitalization plan, medical or dental service plans, health insurance plan, or any other employee benefit plan that may be in effect at any time or from time to time during the term of employment hereof. The Employer agrees that during the term of employment the Employee shall be afforded the opportunity to participate in any such plan which is generally available to other employees of the Employer other than any bonus plan or other plan measured by the income or performance of the Employer. Participating in any such plans shall be consistent with the Employee's rate of basic compensation to the extent that compensation is a determinant with respect to coverage or participation under any such plan; provided, however, that the Employee's participation shall not be limited by reason of income or basic compensation if such limitations are not necessary to obtain tax deductions or are not required by law.

ARTICLE 4
PROPERTY RIGHTS OF THE PARTIES

4.01. INVENTIONS AND PATENTS. The Employee agrees that he will promptly and completely inform and disclose to the Employer all inventions, designs, improvements and discoveries that the Employee may have during the term of employment that pertain or relate to the business of the Employer or to any experimental work carried on by the Employer, whether conceived by the Employee alone or with others and whether or not conceived during regular working hours. All such inventions, designs, improvements and discoveries shall be the exclusive property of the Employer. The Employee shall assist the Employer in obtaining patents on all such inventions, designs, improvements and discoveries deemed patentable by the Employer.

4.02. TRADE SECRETS OF EMPLOYER. During the term of employment under this Agreement, the Employee will have access to and become familiar with various trade secrets. The term "trade secrets" means devices, secret inventions, processes and compilations of information, records and specifications, that are owned by the Employer and that are regularly used in the operation of the business of the Employer. The Employee shall not disclose any trade secrets of the Employer during or at any time after the term of this Agreement, except as required in the course of his employment under this Agreement. All files, records, documents, drawings, specifications, equipment and similar items relating to the business of the Employer, whether or not prepared by the Employee, shall remain the exclusive property of the Employer and shall not be removed under any circumstances from the premises where the work of the Employer is being carried on, unless prior written consent of the Employer has been obtained.

4.03. CONFIDENTIAL DATA OF CUSTOMERS OF EMPLOYER. In the course of performing duties under this Agreement, the Employee will be handling financial, accounting, statistical and personnel information concerning employees and customers of the Employer. All such information is confidential and shall not be disclosed, directly or indirectly, to any person other than agents of the Employer, either during the term of this Agreement or any time after such term.

ARTICLE 5
TERMINATION OF EMPLOYMENT

5.01. TERMINATION BY EMPLOYER FOR CAUSE. The Employer may at its option terminate this Agreement at any time by giving written notice of termination to the Employee without prejudice to any other remedy to which the Employer may be entitled either at law, in equity, or under this Agreement, if the Employee:

(a) Willfully breaches or habitually neglects the duties that the Employee is required to perform under the terms of this Agreement;

(b) Willfully violates reasonable and substantial rules governing employee performance;

(c) Refuses to obey reasonable orders in a manner that amounts to insubordination;

(d) Commits clearly dishonest acts toward the Employer; or

(e) Engages in acts of disruption or violence such as unprovoked fighting.

5.02. TERMINATION ON GROUNDS OTHER THAN FOR CAUSE. This Agreement shall terminate immediately on the occurrence of any one of the following events:

(a) The occurrence of circumstances that make it impossible or impracticable for the business of the Employer to be continued;

(b) The death of the Employee;

(c) The loss by the Employee of legal capacity; or

(d) The continued incapacity on the part of the Employee to perform his duties for a continuous period of ninety (90) days, unless waived by the Employer.

ARTICLE 6
REIMBURSEMENT OF EXPENSES INCURRED BY EMPLOYEE

6.01. BUSINESS EXPENSES. The Employee is authorized to incur reasonable business expenses in the performance of the Employee's duties under this Agreement and in promoting the business of the Employer, including expenditures for entertainment and travel. The Employer will reimburse the Employee on a monthly basis for all such business expenses, provided that the Employee presents to the Employer:

(a) An account book or statement of expense or diary in which the Employee recorded at or near the time each expenditure was made:

(i) The amount of the expenditure;

(ii) The time, place and type of entertainment and travel or other expense;

(iii) The business reason for the expenditure and the nature of the business benefit derived or expected to be derived as a result of the expenditure; and

(iv) The name and any other pertinent information concerning each person who was entertained, sufficient to comply with Internal Revenue Service Guidelines as revised from time to time.

(b) Documentary evidence, such as receipts or paid bills, that states sufficient information to establish the amount, date, place and essential character of the expenditure, for each expenditure.

No expenditures will be reimbursed pursuant to this Section unless the expense is verified and approved by the board of directors of Employer.

ARTICLE 7
EMPLOYEE'S OBLIGATIONS OTHER THAN
TO PERFORM SERVICES

7.01. NON-PIRACY AND NON-COMPETITION BY EMPLOYEE. The Employee covenants and agrees that during the term of employment and for a period of one (1) year (provided, however, that such one (1) year period of time may be extended to include any period of violation hereof and/or any period of time may be extended to enforce this covenant) following any termination of his employment with the Employer, the Employee shall not, directly or indirectly, within the Employer's sales area, either as principal, agent, manager, employee, owner, partner (general or limited), stockholder, director of officer of a corporation, member of an association or otherwise, solicit the rendering of any services of the nature performed by the Employer as of the date of termination of Employee's employment with the Employer or sell or offer to sell any product or other equipment of the nature leased or sold by the Employer as of the date of termination of the Employee's employment with the Employer.

For purposes of this Article 7, the term "Conflicting Organization" shall mean any person or organization which is engaged in or about to become engaged in, research on or development, marketing, rendering or selling of a "Conflicting Service" within a one hundred fifty (150) mile radius of each location in which the Employer has an office or place of business as of the date of termination of this Agreement. The term "Conflicting Service" shall mean any service or process of any person or organization other than the Employer, in existence or under development, which is substantially similar to, resembles or competes directly with any service, or process rendered by the Employer at the time of the termination of the Employee's employment hereunder. The Employee covenants and agrees that during the Employee's employment with the Employer and for a period of one (1) year (provided, however, that such one (1) year period may be extended to include any period of violation hereof and/or any period of time required to enforce this covenant) following any termination of his employment with the Employer, the Employee shall not engage in the following activities:

(a) render services, directly or indirectly, to any Conflicting Organization in connection with the marketing, rendering or selling of a Conflicting Service; or

(b) render services to or own or participate in the ownership of, finance or participate in the financing of, manage, operate, join or control, directly or indirectly, any Conflicting Organization.

The Employee acknowledges that this Section 7.01 constitutes an independent covenant and shall be operative regardless of the reasons for termination of his employment and shall not be affected by performance or non-performance of any provision of this Agreement by the Employer.

7.02. REMEDIES. It is agreed between the parties hereto that the Employer would be irreparably damaged by reason of any violation of the provisions of Section 7.01 hereof, and that any remedy at law for a breach of such provisions would be inadequate. Therefore, in addition to other remedies or relief that may be available at law to the Employer, the Employer shall be entitled to seek and obtain injunctive or other equitable relief (including, but not limited to, a

temporary restraining order, a temporary injunction or a permanent injunction) against Employee, his agents, assigns, or successors for a breach or threatened breach of such provisions and without the necessity of providing actual monetary loss. It is expressly understood between the parties that this injunctive or other equitable relief shall not be the Employer's exclusive remedy for any breach of this Agreement and the Employer shall be entitled to seek any other relief or remedy which it may have by contract, statute, law or otherwise for any breach hereof.

7.03. REASONABLENESS OF NON-PIRACY COVENANT AND COVENANT NOT TO COMPETE. The Employee warrants and represents that:

(a) he is familiar with non-piracy covenants and convents not to compete;

(b) he has discussed the provisions of the non-piracy covenant and the covenant not to compete contained herein with his attorney (or has had the opportunity to discuss such covenants with his attorney and has elected not to do so) and has concluded that such provisions (including, without limitation, the right to equitable relief and the length of time provided for herein) are fair, reasonable and just under the circumstances;

(c) he is fully aware of the obligations, limitations and liabilities included in the non-piracy covenant and the covenant not to compete contained in this Agreement;

(d) the duration of this non-piracy covenant and covenant not to compete has been agreed upon as a reasonable restriction, giving consideration to the following factors: (1) The Employee and the Employer reasonably anticipate that this Agreement, although terminable in accordance with Article 5 hereof or otherwise, may continue in effect for sufficient duration to allow the Employee to attain superior bargaining strength and an ability for unfair competition with respect to the customers covered hereby; and (2) the duration of the non-piracy covenant and covenant not to compete is a reasonably necessary period to allow the Employer to restore its position of equivalent bargaining strength and fair competition with respect to those customers covered hereby; and

(e) the failure of the non-piracy covenant to delineate a geographical territory covered hereby does not constitute an unlimited geographical limitation, that the non-piracy covenant imposes no geographical restriction at all, and that the non-piracy restrictions in the Agreement apply only to customers, and not to territory.

It is the express intention of the Employee and the Employer to comply with the provisions of Tex. Bus. & Comm. Code Ann.Sections 15.50 and 15.51 (Vernon 1990).

7.04. EXCLUSIONS FROM NON-COMPETITION PROVISION. The obligation of the Employee not to compete with the Employer, set forth in Section 7.01 of this Agreement, shall not prohibit the Employee from being a member of professional or social organizations or from owning or purchasing any corporate securities of a Conflicting Organization that are regularly traded on a recognized stock exchange or over-the-counter market, provided that the Employee's ownership interest therein does not exceed one percent (1%) of all issued and outstanding shares of any class of corporate security thereof.

7.05. INDEMNIFICATION. The Employee shall indemnify and hold harmless Employer from all liability from loss, damage, or injury to persons or property resulting from the willful misconduct of the Employee committed in the scope of the Employee's employment.

ARTICLE 8
GENERAL PROVISIONS

8.01. NOTICES. Any notices required to be given under this Agreement by either party to the other may be effected either by personal delivery in writing or by mail, registered or certified, postage prepaid with return receipt requested. Mailed notices shall be addressed to the parties at the addresses appearing in the introductory paragraph of this Agreement. Each party may change that party's address by written notice in accordance with this Paragraph. Notices delivered personally shall be deemed effective as of actual receipt. Mailed notices shall be deemed effective as of two (2) days after posting with the United States Mail Service.

8.02. ENTIRETY OF AGREEMENT. This Agreement supersedes all previous agreements between the Employee and the Employer, and contains the entire understanding between the parties with respect to the subject matter specified in this Agreement. Each party to this Agreement acknowledges that no other agreement, statement, or promise not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing signed by the party to be charged.

8.03. PARTIAL INVALIDITY. If any provision in this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions shall nevertheless continue in full force without being impaired or invalidated in any way.

8.04. LAW GOVERNING AGREEMENT. It is the intent of the parties that this Agreement be governed by and construed in accordance with the laws of the State of Texas.

8.05. WAIVER. The failure of either the Employer or the Employee to insist in one or more instances upon performance of any of the terms or conditions of this Agreement shall not be construed as a waiver of future performance required by such term or condition, and the obligations of either party with respect to the term or condition shall continue in effect as if no forbearance had occurred. No covenant or condition of this Agreement may be waived except by the written consent of the waiving party.

8.06. CAPTIONS. The captions contained in this Agreement are for convenient reference only and do not affect the meaning of any term or provision.

8.07. BINDING EFFECT. This Agreement shall be binding upon the parties hereto and upon their successors, heirs, executors and assigns.

EXECUTED in multiple originals as of the date first written above.

EMPLOYER:

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace Sellers

Wallace Sellers
Chairman

EMPLOYEE:

/s/ Wayne Vinson

Wayne Vinson

AMENDMENT

This instrument is an amendment to that certain Employment Agreement entered into as of the 1st day of January, 1999, by and between NATURAL GAS SERVICES GROUP, INC., a Colorado corporation, (Employer) and WAYNE VINSON (Employee).

The subject Employment Agreement is amended as follows: Section 2.01 of ARTICLE 2 is hereby deleted and is replaced with the following Section 2.01 of ARTICLE 2 which is effective as of July 1, 2000.

> 2.01. BASIC DUTIES. The Employee hereafter shall serve as Vice President and Chief Operations Officer of the Employer in addition to serving as President of Rotary Gas System Inc a wholly owned subsidiary of Employer. The Employee shall perform all services, acts, or things necessary and advisable to manage the operations of Employer, subject to the policies set by the board of directors from time to time.
>
> The Employee agrees to devote substantially all of his entire productive time, ability and attention to the business of the Employer during the term of employment. The services of the Employee shall be performed at such locations and at such times as shall be directed by the board of directors from time to time. The Employee shall to the best of his ability make every effort to promote the business of the Employer.

ARTICLE 3 of the subject Employment Agreement is hereby deleted in its entirety and the following ARTICLE 3 is effective as of July 1, 2000.

ARTICLE 3
COMPENSATION OF EMPLOYEE

> 3.01. BASIC SALARY. The Employee shall receive a salary as established from time to time by the Directors, but in no event shall the annual salary be less than Ninety Thousand Dollars ($90,000), paid biweekly, effective as of July 1, 2000. If the Employee voluntarily terminates employment prior to December 31, 2001 or is terminated pursuant to Article 5 prior to December 31, 2001, or if the Employees employment is terminated by either party at any time after December 31, 2001, the Employee's salary shall be prorated and paid only to the date of termination of employment.
>
> 3.02 INCENTIVE BONUS. Within ninety (90) days of the close of business for each fiscal year, the directors shall review the financial results of the Company and determine an amount, if any, to be allocated for bonus payment to designated employees. The allocation shall be in the sole discretion of the directors. If an allocation is made, the directors shall establish two bonus pools to be designated "Bonus Pool A" and "Bonus Pool B." The directors shall determine the amount of funds that will be allocated to each pool. The allocated funds shall be distributed to participating employees that are designated by the directors or have contractual rights to participate. The distribution shall be as follows:

Pool A: Funds from this pool shall be distributed to each participant based on the percentage that the participating employee's base salary received during the preceding fiscal year represents to the total base salaries of all participating employees.

Example: Participant's base salary = $10,000 Total of all participants' base salaries = $100,000 Participant shall receive: ($10,000) $100,000 = 10% X "Bonus Pool A"

Pool B: Funds from this pool shall be distributed based on an evaluation process for each participating employee. The directors shall establish the review and evaluation process. The funds in "Bonus Pool B" shall be distributed based on the evaluation score of each participant. Non-participating directors and/or non-participating officers shall develop and implement the plan and approve the distribution.

The Employee that is a party to this agreement shall participate in both pools.

3.03. VACATION AND SICK PAY. After the completion of six (6) months of service in the employ of the Employer, the Employee shall be entitled to an annual paid vacation of fifteen (15) business days with full pay. Such vacation shall be taken at any time selected by the Employee and approved by the Employer. In addition, The Employee shall be entitled to six (6) days per year as sick leave with pay.

Neither vacation time nor sick leave may be accumulated, and if not used during the year in which it is granted, it shall be deemed to have been waived by the Employee, unless agreed to and approved by the Employer. Such approval shall be in writing and signed by an officer designated by the directors.

3.04. HOLIDAYS. The Employee shall be entitled to a holiday with full pay on New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and/or any other day designated as a holiday by the Employer.

3.05. OTHER BENEFITS. All base compensation provided for in this Agreement shall be exclusive of any benefits which the board of directors of the Employer may elect, in its sole and complete discretion, after the date hereof to make available to the Employee under any profit sharing trust, pension plan, deferred compensation plan, hospitalization plan, medical or dental service plans, health insurance plan, or any other employee benefit plan that may be in effect at any time or from time to time during the term of employment hereof. The Employer agrees that during the term of employment, the Employee shall be afforded the opportunity to participate in any such plan, which is generally available to other employees of the Employer other than any bonus plan, or other plan measured by the income or performance of the Employer. Participating in any such plans shall be consistent with the Employee's rate of basic compensation to the

extent that compensation is a determinant with respect to coverage or participation under any such plan; provided, however, that the Employee's participation shall not be limited by reason of income or basic compensation if such limitations are not necessary to obtain tax deductions or are not required by law. The Employer agrees that during the term of employment, the dependents of the Employee shall be afforded the opportunity to participate in any hospitalization, medical or dental service plans in which the Employee is enrolled. The Employer shall bear the cost of such dependent participation.

EXECUTED in multiple originals this 1st day of January 2001, and effective as of July 1, 2000.

EMPLOYER:

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace Sellers

EMPLOYEE:

/s/ Wayne Vinson

Exhibit 10.7

EMPLOYMENT CONTRACT

THIS EMPLOYMENT CONTRACT ("Agreement") is made and entered into as of the 1st day of January, 1999, by and between NATURAL GAS SERVICES GROUP, INC., a Colorado corporation, whose address is 2911 South County Road 1260, Midland, Texas 79706, hereinafter referred to in this Agreement as the "Employer", and EARL R. WAIT, whose address is 109 Seco, Portland, Texas 78374, hereinafter referred to in this Agreement as the "Employee."

ARTICLE I
TERM OF EMPLOYMENT

Section 1.1 The Employer employs the Employee, and the Employee accepts employment with the Employer, for the three-year period from September 16, 1999, through September 15, 2002, and thereafter until terminated by either party upon ninety (90) days advance written notice to the other party (herein referred to as the "term of employment"). However, the term of employment may be terminated earlier as provided in Article 5.

ARTICLE II
DUTIES OF EMPLOYEE

BASIC DUTIES

Section 2.1 The Employee is hired as Treasurer and Chief Accounting Officer of the Employer. The Employee shall perform all services, acts, or things necessary and advisable to manage and conduct the business of the Employer, subject to the policies set by the board of directors from time-to-time.

The Employee agrees to devote substantially all of his entire productive time, ability and attention to the business of the Employer during the term of employment. The services of the Employee shall be performed at such locations and at such times as shall be directed by the board of directors from time-to-time. The Employee shall to the best of his ability make every effort to promote the business of the Employer.

ARTICLE III
COMPENSATION OF EMPLOYEE

BASIC SALARY

Section 3.1 The Employee shall receive a salary as established from time to time by the Directors, but in no event shall the annual salary be less than Sixty Five Thousand Dollars ($65,000.00), paid biweekly, effective as of September 16, 1999. If the Employee voluntarily terminates employment prior to September 15, 2002 or is terminated pursuant to Article 5 prior to September 15, 2002, or if the Employee's employment is terminated by either party at any time after September 15, 2002, the Employee's salary and his incentive bonus (as provided under section 3.02 hereof) shall be prorated and paid only to the date of termination of employment.

INCENTIVE BONUS

Section 3.2 The Employee shall receive an annual incentive bonus during the term of employment equal to a percentage of the net pre-tax profits of the Employer as shown by financial income statements of the Employer prepared in accordance with generally accepted accounting procedures. Provided, however, that such incentive bonus shall not be greater than 150% of the gross salary during the contract year. Such incentive bonus shall be determined for each annual period commencing as of January 1 and ending as of December 31 (the "Contract Year"), with payment to the Employee to be made within ninety (90) days following the end of each annual period. The incentive bonus shall be calculated as follows:

Two percent (2%) of the consolidated Net Pre-Tax Profits of Natural Gas Services Group, Inc. as determined by year-end audited Financial Statements, Vacation and Sick Pay.

VACATION AND SICK PAY

Section 3.3 After the completion of six (6) months of service in the employ of the Employer, the Employee shall be entitled to an annual paid vacation of fifteen (15) business days with full pay. Such vacation shall be taken at any time selected by the Employee and approved by the Employer. In addition, the Employee shall be entitled to six (6) days per year as sick leave with pay. Neither vacation time nor sick leave may be accumulated, and if not used during the year in which it is granted, it shall be deemed to have been waived by the Employee.

HOLIDAYS

Section 3.4 The Employee shall be entitled to a holiday with full pay on New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and/or any other day designated as a holiday by the Employer.

OTHER BENEFITS

Section 3.5 All base compensation provided for in this Agreement shall be exclusive of any benefits which the board of directors of the Employer may elect, in its sole and complete discretion, after the date hereof to make available to the Employee under any bonus plan, profit sharing trust, pension plan, deferred compensation plan, hospitalization plan, medical or dental service plans, health insurance plan, or any other employee benefit plan that may be in effect at any time or from time-to-time during the term of employment hereof. The Employer agrees that during the term of employment the Employee shall be afforded the opportunity to participate in any such plan which is generally available to other employees of the Employer other than any bonus plan or other plan measured by the income or performance of the Employer. Participating in any such plans shall be consistent with the Employee's rate of basic compensation to the extent that compensation is a determinant with respect to coverage or participation under any such plan; provided, however, that the Employee's participation shall not be limited by reason of income or basic compensation if such limitations are not necessary to obtain tax deductions or are not required by law. The Employer agrees that during the term of employment, the dependents of the Employee shall be afforded the opportunity to participate in any hospitalization, medical, or dental service plans in which the Employee is enrolled. The Employer shall bear the cost of such dependent participation.

Article IV
PROPERTY RIGHTS OF THE PARTIES

INVENTIONS AND PATENTS

Section 4.1 The Employee agrees that he will promptly and completely inform and disclose to the Employer all inventions, designs, improvements and discoveries that the Employee may have during the term of employment that pertain or relate to the business of the Employer or to any experimental work carried on by the Employer, whether conceived by the Employee alone or with others and whether or not conceived during regular working hours. All such inventions, designs, improvements and discoveries shall be the exclusive property of the Employer. The Employee shall assist the Employer in obtaining patents on all such inventions, designs, improvements and discoveries deemed patentable by the Employer.

TRADE SECRETS OF EMPLOYER

Section 4.2 During the term of employment under this Agreement, the Employee will have access to and become familiar with various trade secrets. The term "trade secrets" means devices, secret inventions, processes and compilations of information, records and specifications, that are owned by the Employer and that are regularly used in the operation of the business of the Employer. The Employee shall not disclose any trade secrets of the Employer during or at any time after the term of this Agreement, except as required in the course of his employment under this Agreement. All files, records, documents, drawings, specifications, equipment and similar items relating to the business of the Employer, whether or not prepared by the Employee, shall remain the exclusive property of the Employer and shall not be removed under any circumstances from the premises where the work of the Employer is being carried on, unless prior written consent of the Employer has been obtained.

CONFIDENTIAL DATA OF EMPLOYER

Section 4.3 In the course of performing duties under this Agreement, the Employee will be handling financial, accounting, statistical and personnel information concerning employees and customers of the Employer. All such information is confidential and shall not be disclosed, directly or indirectly, to any person other than agents of the Employer, either during the term of this Agreement or any time after such term.

ARTICLE V
TERMINATION OF EMPLOYMENT

TERMINATION BY EMPLOYER FOR CAUSE

Section 5.1 The Employer may at its option terminate this Agreement at any time by giving written notice of termination to the Employee without prejudice to any other remedy to which the Employer may be entitled either at law, in equity, or under this Agreement, if the Employee:

(a) Willfully breaches or habitually neglects the duties that the Employee is required to perform under the terms of this Agreement;

(b) Willfully violates reasonable and substantial rules governing employee performance;

(c) Refuses to obey reasonable orders in a manner that amounts to insubordination;

(d) Commits clearly dishonest acts toward the Employer; or

(e) Engages in acts of disruption or violence such as unprovoked fighting.

TERMINATION ON GROUNDS OTHER THAN FOR CAUSE

Section 5.2 This Agreement shall terminate immediately on the occurrence of any one of the following events:

(a) The occurrence of circumstances that make it impossible or impracticable for the business of the Employer to be continued;

(b) The death of the Employee;

(c) The loss by the Employee of legal capacity; or

(d) The continued incapacity on the part of the Employee to perform his duties for a continuous period of ninety (90) days, unless waived by the Employer.

Section 5.3 If the Employee is terminated by the Employer pursuant to Section 5.02 hereof, the Employer shall pay the Employee, within ten days following such termination, severance pay equal to six (6) months of Employee's salary as provided under Section 3.01 hereof. If the Employee is terminated by the Employer prior to September 15, 2002, other than to either Section 5.01 or 5.02 hereof, the Employer shall continue to pay the salary of the Employee, as provided under Section 3.01 hereof (less all usual deductions for withholding taxes, FICA, etc.) for the period from and after the date of termination through September 15, 2002, and the Employee shall be entitled to no further compensation of any nature, other than unpaid salary and incentive bonus which accrued prior to the date of termination.

ARTICLE VI
REIMBURSEMENT OF EXPENSES
INCURRED BY EMPLOYEE

BUSINESS EXPENSES

Section 6.1 The Employee is authorized to incur reasonable business expenses in the performance of the Employee's duties under this Agreement and in promoting the business of the Employer, including expenditures for entertainment and travel. The Employer will reimburse the Employee on a monthly basis for all such business expenses, provided that the Employee presents to the Employer:

(a) An account book or statement of expense or diary in which the Employee recorded at or near the time each expenditure was made:

i. The amount of the expenditure;

ii. The time, place and type of entertainment and travel or other expense;

iii. The business reason for the expenditure and the nature of the business benefit derived or expected to be derived as a result of the expenditure; and

iv. The name and any other pertinent information concerning each person who was entertained, sufficient to comply with Internal Revenue Service Guidelines as revised from time-to-time.

(b) Documentary evidence, such as receipts or paid bills, that states sufficient information to establish the amount, date, place and essential character of the expenditure, for each expenditure.

No expenditures will be reimbursed pursuant to this Section unless the expense is verified and approved by the board of directors or an officer designated by the board of directors of the Employer.

ARTICLE VII
EMPLOYEE'S OBLIGATIONS
OTHER THAN TO PERFORM SERVICES

NON-PIRACY AND NON-COMPETITION BY EMPLOYEE

Section 7.1 The Employee covenants and agrees that during the term of employment and for a period of one (1) year (provided, however, that such one (1) year period of time may be extended to include any period of violation hereof and/or any period of time may be extended to enforce this covenant) following any termination of his employment with the Employer, the Employee shall not, directly or indirectly, within the Employer's sales area, either as principal, agent, manager, employee, owner, partner (general or limited), stockholder, director or officer of a corporation, member of an association or otherwise, solicit the rendering of any services of the nature performed by the Employer as of the date of termination of Employee's employment with the Employer or sell or offer to sell any product or equipment of the nature leased or sold by the Employer as of the date of termination of the Employee's employment with the Employer.

For purposes of this Article 7, the term "Conflicting Organization" shall mean any person or organization which is engaged in or about to become engaged in, research on or development, marketing, rendering or selling of a "Conflicting Service" within a one hundred fifty (150) mile radius of each location in which the Employer has an office or place of business as of the date of termination of this Agreement. The term "Conflicting Service" shall mean any service or process of any person or organization other than the Employer, in existence or under development, which is substantially similar to, resembles or competes directly with any service,

or process rendered by the Employer at the time of the termination of the Employee's employment hereunder. The Employee covenants and agrees that during the Employee's employment with the Employer and for a period of one (1) year (provided, however, that such one (1) year period may be extended to include any period of violation hereof and/or any period of time required to enforce this covenant) following any termination of his employment with the Employer, the Employee shall not engage in the following activities:

(a) render services, directly or indirectly, to any Conflicting Organization in connection with the marketing, rendering or selling of a Conflicting Service; or

(b) render services to or own or participate in the ownership of, finance or participate in the financing of, manage, operate, join or control, directly or indirectly, any Conflicting Organization.

The Employee acknowledges that this Section 7.01 constitutes an independent covenant and shall be operative regardless of the reasons for termination of his employment and shall not be affected by performance or non-performance of any provision of this Agreement by the Employer.

REMEDIES

Section 7.2 It is agreed between the parties hereto that the Employer would be irreparably damaged by reason of any violation of the provisions of Section 7.01 hereof, and that any remedy at law for a breach of such provisions would be inadequate. Therefore, in addition to other remedies or relief that may be available at law to the Employer, the Employer shall be entitled to seek and obtain injunctive or other equitable relief (including, but not limited to, a temporary restraining order, a temporary injunction or a permanent injunction) against Employee, his agents, assigns, or successors for a breach or threatened breach of such provisions and without the necessity of providing actual monetary loss. It is expressly understood between the parties that this injunctive or other equitable relief shall not be the Employer's exclusive remedy for any breach of this Agreement and the Employer shall be entitled to seek any other relief or remedy which it may have by contract, statute, law or otherwise for any breach hereof.

REASONABLENESS OF NON-PIRACY COVENANT AND COVENANT NOT TO COMPETE

Section 7.3 The Employee warrants and represents that:

(a) he is familiar with non-piracy covenants and convents not to compete;

(b) he has discussed the provisions of the non-piracy covenant and the covenant not to compete contained herein with his attorney (or has had the opportunity to discuss such covenants with his attorney and has elected not to do so) and has concluded that such provisions (including, without limitation, the right to equitable relief and the length of time provided for herein) are fair, reasonable and just under the circumstances;

(c) he is fully aware of the obligations, limitations and liabilities included in the non-piracy covenant and the covenant not to compete contained in this Agreement;

(d) the duration of this non-piracy covenant and covenant not to compete has been agreed upon as a reasonable restriction, giving consideration to the following factors: (1) The Employee and the Employer reasonably anticipate that this Agreement, although terminable in accordance with Article 5 hereof or otherwise, may continue in effect for sufficient duration to allow the Employee to attain superior bargaining strength and an ability for unfair competition with respect to the customers covered hereby; and (2) the duration of the non-piracy covenant and covenant not to compete is a reasonably necessary period to allow the Employer to restore its position of equivalent bargaining strength and fair competition with respect to those customers covered hereby; and

(e) the failure of the non-piracy covenant to delineate a geographical territory covered hereby does not constitute an unlimited geographical limitation, that the non-piracy covenant imposes no geographical restriction at all, and that the non-piracy restrictions in the Agreement apply only to customers, and not to territory.

It is the express intention of the Employee and the Employer to comply with the provisions of Tex. Bus. & Comm. Code Ann. Sections 15.50 and 15.51 (Vernon 1990).

EXCLUSIONS FROM NON-COMPETITION PROVISION

Section 7.4 The obligation of the Employee not to compete with the Employer, set forth in Section 7.01 of this Agreement, shall not prohibit the Employee from being a member of professional or social organizations or from owning or purchasing any corporate securities of a Conflicting Organization that are regularly traded on a recognized stock exchange or over-the-counter market, provided that the Employee's ownership interest therein does not exceed one percent (1%) of all issued and outstanding shares of any class of corporate security thereof.

INDEMNIFICATION

Section 7.5 The Employee shall indemnify and hold harmless Employer from all liability from loss, damage, or injury to persons or property resulting from the willful misconduct of the Employee committed in the scope of the Employee's employment.

ARTICLE VIII

GENERAL PROVISIONS

NOTICES

Section 8.1 Any notices required to be given under this Agreement by either party to the other may be effected either by personal delivery in writing or by mail, registered or certified, postage prepaid with return receipt requested. Mailed notices shall be addressed to the parties at the addresses appearing in the introductory paragraph of this Agreement. Each party may change that party's address by written notice in accordance with this Paragraph. Notices delivered personally shall be deemed effective as of actual receipt. Mailed notices shall be deemed effective as of two (2) days after posting with the United States Mail Service.

ENTIRETY OF AGREEMENT

Section 8.2 This Agreement supersedes all previous agreements between the Employee and the Employer, and contains the entire understanding between the parties with respect to the subject matter specified in this Agreement. Each party to this Agreement acknowledges that no other agreement, statement, or promise not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing signed by the party to be charged.

PARTIAL INVALIDITY

Section 8.3 If any provision in this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions shall nevertheless continue in full force without being impaired or invalidated in any way.

LAW GOVERNING AGREEMENT

Section 8.4 It is the intent of the parties that this Agreement be governed by and construed in accordance with the laws of the State of Texas.

WAIVER

Section 8.5 The failure of either the Employer or the Employee to insist in one or more instances upon performance of any of the terms or conditions of this Agreement shall not be construed as a waiver of future performance required by such term or condition, and the obligations of either party with respect to the term or condition shall continue in effect as if no forbearance had occurred. No covenant or condition of this Agreement may be waived except by the written consent of the waiving party.

CAPTIONS

Section 8.6 The captions contained in this Agreement are for convenient reference only and do not affect the meaning of any term or provision.

BINDING EFFECT

Section 8.7 This Agreement shall be binding upon the parties hereto and upon their successors, heirs, executors and assigns.

EXECUTED in multiple originals as of the date first written above.

EMPLOYER:

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace Sellers

Wallace Sellers, Chairman

EMPLOYEE:

/s/ Earl R. Wait

Earl R. Wait

AMENDMENT

This instrument is an amendment to that certain Employment Agreement entered into as of the 1st day of January, 1999, by and between Natural Gas Services Group, Inc., a Colorado corporation, ("Employer") and Earl Wait ("Employee").

The subject Employment Agreement is amended as follows:

ARTICLE 3 of the subject Employment Agreement is hereby deleted in its entirety and the following ARTICLE 3 is adopted as of July 1, 2000. All other terms in the Employment Agreement remain as written.

ARTICLE 3
COMPENSATION OF EMPLOYEE

BASIC SALARY

3.01. The Employee shall receive a salary as established from time to time by the Directors, but in no event shall the annual salary be less than Eighty Two Thousand Dollars ($82,000), paid biweekly, effective as of July 1, 2000. If the Employee voluntarily terminates employment prior to December 31, 2001 or is terminated pursuant to Article 5 prior to December 31, 2001, or if the Employees employment is terminated by either party at any time after December 31, 2001, the Employee's salary shall be prorated and paid only to the date of termination of employment.

INCENTIVE BONUS

3.02. Within ninety (90) days of the close of business for each fiscal year, the directors shall review the financial results of the Company and determine an amount, if any, to be allocated for bonus payment to designated employees. The allocation shall be in the sole discretion of the directors. If an allocation is made, the directors shall establish two bonus pools to be designated "Bonus Pool A" and "Bonus Pool B." The directors shall determine the amount of funds that will be allocated to each pool. The allocated funds shall be distributed to participating employees that are designated by the directors or have contractual rights to participate. The distribution shall be as follows:

POOL A:

Funds from this pool shall be distributed to each participant based on the percentage that the participating employee's base salary received during the preceding fiscal year represents to the total base salaries of all participating employees.

Example:

Participant's base salary = $10,000 Total of all participants' base salaries = $100,000 Participant shall receive:

($10,000) $100,000 = 10% X "Bonus Pool A"

POOL B:

Funds from this pool shall be distributed based on an evaluation process for each participating employee. The directors shall establish the review and evaluation process. The funds in "Bonus Pool B" shall be distributed based on the evaluation score of each participant. Non-participating directors and/or non-participating officers shall develop and implement the plan and approve the distribution.

The Employee that is a party to this agreement shall participate in both pools.

VACATION AND SICK PAY

3.03. After the completion of six (6) months of service in the employ of the Employer, the Employee shall be entitled to an annual-paid vacation of fifteen (15) business days with full pay. Such vacation shall be taken at any time selected by the Employee and approved by the Employer. In addition, the Employee shall be entitled to six (6) days per year as sick leave with pay. Neither vacation time nor sick leave may be accumulated, and if not used during the year in which it is granted, it shall be deemed to have been waived by the Employee, unless agreed to and approved by the Employer. Such approval shall be in writing and signed by an officer designated by the directors.

HOLIDAYS

3.04. The Employee shall be entitled to a holiday with full pay on New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and/or any other day designated as a holiday by the Employer.

OTHER BENEFITS

3.05. All base compensation provided for in this Agreement shall be exclusive of any benefits which the board of directors of the Employer may elect, in its sole and complete discretion, after the date hereof to make available to the Employee under any profit sharing trust, pension plan, deferred compensation plan, hospitalization plan, medical or dental service plans, health insurance plan, or any other employee benefit plan that may be in effect at any time or from time-to-time during the term of employment hereof. The Employer agrees that during the term of employment, the Employee shall be afforded the opportunity to participate in any such plan, which is generally available to other employees of the Employer other than any bonus plan, or other plan measured by the income or performance of the Employer. Participating in any such plans shall be consistent with the Employee's rate of basic compensation to the extent that compensation is a determinant with respect to coverage or participation under any such plan; provided, however, that the Employee's participation shall not be limited by reason of income or basic compensation if such limitations are not necessary to obtain tax deductions or are not required by law. The Employer agrees that during the term of employment, the dependents of the Employee shall be afforded the opportunity to participate in any hospitalization, medical or dental service plans in which the Employee is enrolled. The Employer shall bear the cost of such dependent participation.

EXECUTED in multiple originals this 1st day of January 2001, and effective as of July 1, 2000.

EMPLOYER:	EMPLOYEE:
NATURAL GAS SERVICES GROUP INC.	/s/ Earl R. Wait

By: /s/ Wallace Sellers

Wallace Sellers, Chairman

Exhibit 10.8

THIS PROMISSORY NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 ("THE ACT"), NOR UNDER APPLICABLE STATE SECURITIES LAWS. THIS NOTE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT AND STATE LAWS, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

ISSUE DATE: February 14, 2001

AMOUNT: $_________ Note No. A-____

NGE LEASING, INC.
SERIES A 10% SUBORDINATED NOTE DUE DECEMBER 31, 2006

1. PROMISE TO PAY

1.1 Promise to Pay - FOR VALUE RECEIVED, NGE LEASING, INC., a Texas corporation with its principal executive office at 2911 South CR 1260, Midland, Texas 79706 (the "Company"), promises to pay to the order of _____________, located at __________ (the "Lender"), on December 31, 2006 or such date specified below (the "Maturity Date"), the principal sum of $_______ (the "Principal Sum"). Interest at the rate of 10% per annum on the Principal Sum will be compounded and payable annually, with the first interest payment due December 31, 2001.

1.2 Maturity Date - The Maturity Date of this Series A 10% Subordinated Note (the "Note") is December 31, 2006. The Company shall pay the Principal Sum outstanding to the Lender in lawful money of the United States of America on the Maturity Date at the address of the Lender set out above or such other address as the Lender designates by written notice to the Company prior to the payment being made. This Note may be pre-paid in whole or in part at any time without penalty.

1.3 Events of Default - The whole of the Principal Sum or the balance remaining unpaid, together with any accrued and unpaid interest may, at the option of the Lender, become immediately due and payable upon the occurrence of any of the following events (each event being called an "event of default"):

(a) the Company defaults in payment of the Principal Sum on the Maturity Date and the default continues for 30 days after written notice of the default to the Company by the Lender;

(b) the Company has not paid an annual interest payment for any year when due and the default continues for 60 days after written notice of the default to the Company by the Lender;

(c) the Company defaults in the performance or observance of any other covenant or condition of the Note and the default continues for 60 days after written notice of the default to the Company by the Lender;

(d) an order is made for the winding-up of the Company; a petition is filed by or against the Company; an assignment for the benefit of creditors is made by the Company; a receiver or agent is appointed in respect of the Company under any bankruptcy or insolvency legislation, or by or on behalf of a secured creditor of the Company; or an application is made under the United States Bankruptcy Code or any successor or similar legislation;

(e) the Company ceases to carry on its business or disposes of substantially all of its assets; or

(f) the Company takes any corporate proceedings for its dissolution or liquidation.

1.4 Unsecured Loan; Subordinated to Prior Debt - This Note is not secured by collateral. The indebtedness represented by this Note is subordinate to secured indebtedness of the Company.

1.5 Guaranty of Debt - The payment of principal and interest under this Note is guaranteed by Natural Gas Services Group, Inc. in the event NGE Leasing, Inc. defaults on the payment of principal or interest.

2. REGISTERS OF THE COMPANY

2.1 The Company shall, at all times while this Note is outstanding, cause to be kept by and at the principal office of the Company, registers in which will be entered the Lender's name and address and particulars of this Note held by it. No transfer, exchange or conversion of this Note will be valid unless made by the Lender or its administrators or other legal representatives or its attorney duly appointed by an instrument in writing unless in form and execution satisfactory to the Company acting reasonably upon compliance with such requirements as are set out in this Note, and such other requirements as the Company acting reasonably may prescribe, and unless the transfer has been duly entered on one of the appropriate registers or noted on this Note by the Company or other registrar.

2.2 The registers referred to above will at all reasonable times be open for inspection by the Lender.

2.3 Subject to restrictions under the Securities Act of 1933 and similar laws, the Lender may at any time and from time to time have this Note transferred at any of the places at which a register is kept pursuant to the provisions of this section, in accordance with such reasonable regulations as the Company may prescribe.

3. GENERAL

3.1 Ownership of Note - The Company will not be charged with notice of nor be bound to see to the execution of any trust, whether expressed, implied or constructive, in respect of this Note and the Company may transfer this Note on the direction of the Lender whether named as trustee or otherwise, as though that person were the beneficial owner.

3.2 Notice and Other Instruments - Any notice, demand or other communication required or permitted to be given to a party must be in writing and must be:

(a) personally delivered to that party or a director or officer of that party; or

(b) except during a period of strike, lock-out or other postal disruption, sent by registered mail, postage prepaid to the address of that party set forth on page one; or

(c) sent by telegraph, telecopier or telex or similar communication tested prior to sending and confirmed by prepaid registered or certified mail to the address of that party set forth on page one;

and will be deemed to have been received by that party on the earliest of the date of delivery under paragraph (a), the actual date of receipt where mailed under paragraph (b) and the day following the date of communication (otherwise than by mail) under paragraph (c). Any party may give written notice to the other party of a change of address to some other address, in which event any communication must thereafter be given to that party, at the last such changed address of which the party communicating has received written notice.

3.3 Headings - Headings to the sections, paragraphs, subparagraphs and clauses of this Note have been inserted for convenience of reference only, and are not to affect its construction.

3.4 Governing Law - This Note and the rights, remedies, powers, covenants, duties and obligations of the parties will be construed in accordance with and governed by the laws of the State of Colorado and the federal laws of the United States.

3.5 Arbitration - Any controversy, claim, dispute and matters of difference with respect to this Agreement and the transactions contemplated by it must be resolved through submission to arbitration in Denver, Colorado according to the rules and practices of the American Arbitration Association from time to time in force.

3.6 Severability - If any provision of this Note is or becomes invalid, illegal or unenforceable in any respect, that fact will not affect the validity, legality or enforceability of the remaining provisions of this Note or any valid, legal or enforceable parts of the impugned provision.

3.7 Binding on Successors - This Note will inure to the benefit of and be binding upon each of the parties and their respective heirs, executors, administrators, successors and permitted assigns.

3.8 Amendment and Waiver - This Note may not be amended, waived, discharged or terminated except by a document executed by the party against whom enforcement of the amendment, waiver, discharge or termination is sought.

3.9 Entire Agreement - This Note, together with the Subscription Agreement and Investment Letter between Natural Gas Services Group, Inc. and the Lender, sets out the entire agreement and understanding of the Company and the Lender with respect to the loan and supersedes all prior oral and written agreements, undertakings and understandings.

NGE LEASING, INC.

By:_____________________________

Title:_______________________

GUARANTOR:

NATURAL GAS SERVICES GROUP, INC.

By:_____________________________

Title:_______________________

Exhibit 10.9

THE WARRANTS AND UNDERLYING SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT"), AND ARE "RESTRICTED SECURITIES" AS THAT TERM IS DEFINED IN RULE 144 UNDER THE ACT. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

Warrant Certificate No. ____
Issue Date: February 14, 2001

WARRANT TO PURCHASE ________ SHARES
VOID AFTER 5:00 P.M., MOUNTAIN TIME, ON DECEMBER 31, 2006

NATURAL GAS SERVICES GROUP, INC.
WARRANT AGREEMENT AND CERTIFICATE

This certifies that, for value received, ______________, located at __________, the registered holder hereof (the "Warrant Holder"), is entitled to purchase from Natural Gas Services Group, Inc., a Colorado corporation (the "Company") with its principal office located in Midland, Texas, at any time commencing on the Issue Date set forth above, and before 5:00 P.M., Mountain Time, on December 31, 2006 (the "Termination Date") at the purchase price of $3.25 per share (the "Exercise Price"), the number of shares of the Company's Common Stock (the "Shares") set forth above. The number of Shares purchasable upon exercise of this Warrant and the Exercise Price per Share shall be subject to adjustment from time to time as set forth in Section 5 below.

Section 1. Sale and Delivery of Warrant. The Warrants represented hereby were issued in connection with the private offering commenced in October 2000 of the Company's Series A 10% Subordinated Notes due December 31, 2006 (the "Private Offering").

Section 2. Transfer or Exchange of Warrant.

2.1 The Company shall be entitled to treat the registered owner of any Warrant (the "Warrant Holder") as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in such Warrant on the part of any other person, and shall not be liable for any registration of transfer of Warrants which are registered or to be registered in the name of a fiduciary or the nominee of a fiduciary unless made with the actual knowledge that a fiduciary or nominee is committing a breach of trust in requesting such registration of transfer, or with such knowledge of such facts that its participation therein amounts to gross negligence or bad faith.

2.2 This Warrant may not be sold, transferred, assigned or hypothecated except pursuant to all applicable federal and state securities laws.

2.3 A Warrant shall be transferable only on the books of the Company upon delivery of this Warrant Certificate duly endorsed by the Warrant Holder or by his duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to transfer.

Upon any registration of transfer, the Company shall deliver a new Warrant Certificate to the persons entitled thereto.

Section 3. Term of Warrants; Exercise of Warrants.

3.1 Subject to the terms of this Agreement and Certificate, the Warrant Holder has the right, which may be exercised commencing immediately and ending at 5:00 p.m. Mountain Time on the Termination Date, to purchase from the Company the number of Shares which the Warrant Holder may at that time be entitled to purchase on exercise of this Warrant.

3.2 A Warrant shall be exercised by surrender to the Company, at its principal office, of this Warrant Agreement and Certificate, together with the form of election to purchase attached hereto as Exhibit A, duly completed and signed, and payment to the Company of the Exercise Price (as defined in accordance with the provisions of Section 4 hereof) for the number of Shares in respect of which such Warrant is then exercised. Except as provided in Section 3.3, payment of the aggregate Exercise Price shall be made in cash or certified funds.

3.3 In addition to and without limiting the rights of the Holder under the terms of this Warrant, the Holder shall have the right (the "Conversion Right") to convert this Warrant or any portion thereof into Shares as provided in this Section 3.3 at any time prior to the Termination Date.

a. Upon exercise of the Conversion Right with respect to a particular number of Shares (the "Converted Shares"), the Company shall deliver to the Holder, without payment by the Holder of any Exercise Price or any cash or other consideration, that number of Shares equal to the quotient obtained by dividing the Net Value (as hereinafter defined) of the Converted Shares by the fair market value (as defined in paragraph 3.3(c) below) of a single Share, determined in each case as of the close of business on the Conversion Date (as hereinafter defined). The "Net Value" of the Converted Shares shall be determined by subtracting the aggregate Exercise Price of the Converted Shares from the aggregate fair market value of the Converted Shares. No fractional securities shall be issuable upon exercise of the Conversion Right, and if the number of securities to be issued in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash equal to the fair market value of the resulting fractional Share.

b. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the principal office of the Company or at the office of the Company's stock transfer agent, if any, together with a written statement specifying that the Holder thereby intends to exercise the Conversion Right and indicating the number of Shares subject to the Warrant which are being surrendered (referred to in subparagraph 3.3(a) above as the Converted Shares), in the form attached to and by this reference incorporated in this Warrant as Exhibit B, in exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"), but not later than the expiration date of the Warrant. Certificates for the Converted Shares issuable upon exercise of the Conversion Right, together with a check in payment of any fractional Warrant Share and, in the case of a partial exercise a new warrant evidencing the Warrant Shares remaining

subject to the Warrant, shall be issued as of the Conversion Date and shall be delivered to the Holder within twenty-one days following the Conversion Date.

c. For purposes of this Section 2.3, the "fair market value" of a Share as of a particular date shall be its "market price," which, for purposes of this Section 2.3 shall mean, if the Shares are traded on a securities exchange or on Nasdaq, the closing price of the Shares on such exchange or the last sale price on Nasdaq, or, if the Shares are otherwise traded in the over-the-counter market, the average of the closing bid and ask price, in each case averaged over a period of five consecutive trading days prior to the date as of which "market price" is being determined. If at any time the Shares are not traded on an exchange or Nasdaq, or otherwise traded in the over-the-counter market, the "market price" shall be deemed to be the fair value thereof determined in good faith by the Board of Directors of the Company as of a date which is within 15 days of the date as of which the determination is to be made.

3.4 Subject to Section 5 hereof, upon surrender of a Warrant Agreement and Certificate and payment of the Exercise Price as aforesaid, the Company shall issue and cause to be delivered with all reasonable dispatch to or upon the written order of the Warrant Holder exercising such Warrant and in such name or names as such Warrant Holder may designate, certificates for the number of Shares so purchased upon the exercise of such Warrant. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Shares as of the date of receipt by the Company of such Warrant Agreement and Certificate and payment of the Exercise Price. The rights of purchase represented by the Warrants shall be exercisable, at the election of the Warrant Holders thereof, either in full or from time to time in part and, in the event that a Warrant Agreement and Certificate is exercised to purchase less than all of the Shares purchasable on such exercise at any time prior to the Termination Date, a new Warrant Agreement and Certificate evidencing the remaining Warrant or Warrants will be issued.

3.5 The Warrant Holder will pay all documentary stamp taxes, if any, attributable to the initial issuance of the Shares upon the exercise of Warrants.

Section 4. Adjustment of Exercise Price and Shares.

4.1 If the Company shall at any time subdivide its outstanding Common Stock by recapitalization, reclassification or split-up thereof, the number of Shares of Common Stock subject to this Warrant immediately prior to such subdivision shall be proportionately increased, and if the Company shall at any time combine the outstanding Common Stock by recapitalization, reclassification or combination thereof, the number of Shares of Common Stock subject to this Warrant immediately prior to such combination shall be proportionately decreased. Any corresponding adjustment to the Exercise Price shall become effective at the close of business on the record date for such subdivision or combination.

4.2 In the event of a dividend (other than in shares of Common Stock of the Company), the proposed dissolution or liquidation of the Company, or any corporate separation or division, including, but not limited to, a split-up, split-off or spin-off, or a merger or consolidation of the Company with another corporation, or the sale of all or substantially all of the assets of the

Company, the Board may provide that each Warrantholder will have the right to exercise this Warrant (at its then current Exercise Price) solely for the kind and amount of shares of stock and other securities, property, cash or any combination thereof receivable upon such dissolution, liquidation, corporate separation or division, or merger or consolidation by a holder of the number of shares of Common Stock for which this Warrant might have been exercised immediately prior to such dissolution, liquidation, corporate separation or division, or merger or consolidation; or, in the alternative, the Board may provide that this Warrant will terminate as of a date fixed by the Board; provided, however, that not less than 30 days' written notice of the date so fixed must be given to the Warrantholder, who will have the right, during the period of 30 days preceding such termination, to exercise this Warrant as to all or any part of the shares of Common Stock covered by this Warrant.

4.3 The preceding paragraph will not apply to a merger or consolidation in which the Company is the surviving corporation and shares of Common Stock are not converted into or exchanged for stock, securities of any other corporation, cash or any other thing of value. Notwithstanding the preceding sentence, in case of any consolidation or merger of another corporation into the Company in which the Company is the surviving corporation and in which there is a reclassification or change (including a change to the right to receive cash or other property) of the shares of Common Stock (excluding a change in par value, or from no par value to par value, or any change as a result of a subdivision or combination, but including any change in such shares into two or more classes or series of shares), the Board may provide that the holder of this Warrant will have the right to exercise this Warrant solely for the kind and amount of shares of stock and other securities (including those of any new direct or indirect parent of the Company), property, cash or any combination thereof receivable upon such reclassification, change, consolidation or merger by the holder of the number of shares of Common Stock for which this Warrant might have been exercised.

4.4 In the event of a change in the Common Stock of the Company as presently constituted into the same number of shares with a different par value, the shares resulting from any such change will be deemed to be the Common Stock of the Company within the meaning of this agreement.

4.5 To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments will be made in good faith by the Board.

4.6 Except as expressly provided in this Warrant, the Warrantholder will have no rights by reason of any subdivision or consolidation of shares of stock of any class, or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class, or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another corporation; and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, will not affect, and no adjustment will be made with respect to, the number or price of shares of Common Stock subject to this Warrant. The grant of this Warrant will not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structures, or to merge or consolidate, or to dissolve, liquidate, or sell or transfer all or any part of its business or assets.

Section 5. Mutilated or Missing Warrant Certificates. In case any Warrant Certificate shall be mutilated, lost, stolen or destroyed, the Company shall, at the request of the holder of such

Certificate, issue and deliver, in exchange and substitution for and upon cancellation of the mutilated Certificate, or in lieu of and substitution for the Certificate, lost, stolen or destroyed, a new Warrant Certificate of like tenor and representing an equivalent right or interest; but only upon receipt of evidence satisfactory to the Company of such loss, theft or destruction of such Warrant Certificate and indemnity, if requested, also satisfactory to the Company. An applicant for such a substitute Warrant Certificate shall also comply with such other reasonable regulations and pay such other reasonable charges as the Company may prescribe.

Section 6. Reservation of Shares of Common Stock. There has been reserved, and the Company shall at all times keep reserved so long as any of the Warrants remain outstanding, out of its authorized Common Stock a number of shares of Common Stock sufficient to provide for the exercise of the rights of purchase represented by the outstanding Warrants and the underlying securities.

Section 7. No Fractional Shares. The Company shall not be required to issue fractional shares or scrip representing fractional shares upon the exercise of the Warrants. As to any final fraction of a Share which the Warrant Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the market price of a share of Common Stock on the business day preceding the day of exercise.

Section 8. Transfer and Exercise to Comply With the Securities Act of 1933.

8.1 Neither the Warrants nor the Warrant Shares may be sold, transferred or otherwise disposed of except to a person, who, in the opinion of counsel for the Company, is a person to whom such securities may legally be transferred pursuant to the provisions of this Agreement without registration, and without the delivery of a current prospectus, under the Act with respect thereto.

8.2 Unless the Company has on file with the Securities and Exchange Commission a current registration statement to permit the Company to issue registered shares upon exercise of the Warrants, the Warrants may not be exercised except in a transaction exempt from registration under the Act.

8.3 The Company shall cause the following legend to be set forth on each Warrant Certificate and certificates representing the Warrant Shares, unless counsel for the Company is of the opinion as to any such Certificates that such legend is unnecessary:

> The securities represented by this certificate may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement made under the Securities Act of 1933 (the "Act"), or pursuant to an exemption from registration under the Act the availability of which is to be established to the satisfaction of the Company.

Section 9. Notices. Any notice pursuant to this Agreement by the Company or by the Warrant Holders shall be in writing and shall be deemed to have been duly given if delivered or mailed

certified mail, return receipt requested, (a) if to the Company, to Natural Gas Services Group, Inc., 2911 So. County Road 1260, Midland, TX 79706, attn: President; and (b) if to the Warrant Holder, to the address set forth above. Each party hereto may from time to time change the address to which notices to it are to be delivered or mailed hereunder by notice in accordance herewith to the other party.

Section 11. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Holders shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 12. Applicable Law. This Warrant Agreement and Certificate and any replacement Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Colorado and for all purposes shall be construed in accordance with the laws of said State.

Section 13. Benefits of This Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company and the Warrant Holders any legal or equitable right, remedy or claim under this Agreement and this Agreement shall be for the sole and exclusive benefit of the Company and the Warrant Holders.

DATED: _________________, 2002

NATURAL GAS SERVICES GROUP, INC.

By:_____________________________
Wayne L. Vinson, President

EXHIBIT A

PURCHASE FORM

DATED _______________, ____

THE UNDERSIGNED HEREBY IRREVOCABLY ELECTS TO EXERCISE THE WARRANT REPRESENTED BY THIS WARRANT CERTIFICATE TO THE EXTENT OF PURCHASING __________ SHARES OF NATURAL GAS SERVICES GROUP, INC. AND HEREBY MAKES PAYMENT OF $3.25 PER SHARE IN PAYMENT OF THE EXERCISE PRICE THEREOF.

INSTRUCTIONS FOR REGISTRATION OF STOCK

NAME:

____
(PLEASE TYPE OR PRINT IN BLOCK LETTERS)

ADDRESS:

____

SIGNATURE____

DATED: ___________________,______

- ---

ASSIGNMENT FORM

FOR VALUE RECEIVED, __________________________, HEREBY SELLS, ASSIGNS AND TRANSFERS UNTO

NAME:

____
(PLEASE TYPE OR PRINT IN BLOCK LETTERS)

ADDRESS:

____
THE RIGHT TO PURCHASE SHARES OF NATURAL GAS SERVICES GROUP, INC. REPRESENTED BY THIS WARRANT CERTIFICATE TO THE EXTENT OF _________ SHARES AS TO WHICH SUCH RIGHT IS EXERCISABLE AND DOES HEREBY IRREVOCABLY CONSTITUTE AND APPOINT NATURAL GAS SERVICES GROUP, INC. TO TRANSFER THE SAME ON THE BOOKS OF THE COMPANY WITH FULL POWER OF SUBSTITUTION IN THE PREMISES.

____
SIGNATURE

DATED:___________________,______

NOTICE: THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS IT APPEARS UPON THE FACE OF THIS WARRANT CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

EXHIBIT B

WARRANT CONVERSION EXERCISE FORM

TO: NATURAL GAS SERVICES GROUP, INC.

Pursuant to Section 2.3 of the Warrant Certificate from Natural Gas Services Group, Inc. (the "Company") to the undersigned Holder, the Holder hereby irrevocably elects to convert Warrants with respect to Shares of the Company into ___________ Shares of the Company.

A conversion calculation is attached hereto as Exhibit B-1.

The undersigned requests that certificates for such Shares be issued as follows:

Name: ____

Address: ____

____

Deliver to: ____

and that a new Warrant Certificate for the balance remaining of the Warrants, if any, subject to the Warrant be registered in the name of, and delivered to, the undersigned at the address stated above.

Dated: _________________

____
[NAME OF WARRANT HOLDER]

EXHIBIT B-1

CALCULATION OF WARRANT CONVERSION

Shares to be Delivered by Company	=	Net Value / fmv
fmv	=	$____________
Net Value	=	aggregate fmv of Converted Shares - aggregate Exercise Price of Converted Shares
	=	$____________ - $____________
	=	$____________
Shares to be Delivered by Company	=	_____________
Fractional Shares	=	____________

Exhibit 10.10

THE WARRANTS AND UNDERLYING SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT"), AND ARE "RESTRICTED SECURITIES" AS THAT TERM IS DEFINED IN RULE 144 UNDER THE ACT. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

Warrant Certificate No. P-1
Issue Date: May 24, 2001

WARRANT TO PURCHASE 61,570 SHARES
VOID AFTER 5:00 P.M., MOUNTAIN TIME, ON DECEMBER 31, 2006

NATURAL GAS SERVICES GROUP, INC.
WARRANT AGREEMENT AND CERTIFICATE

This certifies that, for value received, Berry-Shino Securities, Inc., an Arizona corporation, located at 14500 N. Northsight Blvd., Suite 101, Scottsdale, AZ 85260, the registered holder hereof (the "Warrant Holder"), is entitled to purchase from Natural Gas Services Group, Inc., a Colorado corporation (the "Company") with its principal office located in Midland, Texas, at any time commencing one year from the Issue Date set forth above, and before 5:00 P.M., Mountain Time, on December 31, 2006 (the "Termination Date") at the purchase price of $3.25 per share (the "Exercise Price"), the number of shares of the Company's Common Stock (the "Shares") set forth above. The number of Shares purchasable upon exercise of this Warrant and the Exercise Price per Share shall be subject to adjustment from time to time as set forth in Section 5 below.

Section 1. Sale and Delivery of Warrant. The Warrants represented hereby were issued as placement agent warrants in connection with the private offering commenced in October 2000 of the Company's Series A 10% Subordinated Notes due December 31, 2006 (the "Private Offering").

Section 2. Transfer or Exchange of Warrant.

2.1 The Company shall be entitled to treat the registered owner of any Warrant (the "Warrant Holder") as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in such Warrant on the part of any other person, and shall not be liable for any registration of transfer of Warrants which are registered or to be registered in the name of a fiduciary or the nominee of a fiduciary unless made with the actual knowledge that a fiduciary or nominee is committing a breach of trust in requesting such registration of transfer, or with such knowledge of such facts that its participation therein amounts to gross negligence or bad faith.

2.2 This Warrant may not be sold, transferred, assigned or hypothecated except pursuant to all applicable federal and state securities laws.

2.3 A Warrant shall be transferable only on the books of the Company upon delivery of this Warrant Certificate duly endorsed by the Warrant Holder or by his duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to transfer. Upon any registration of transfer, the Company shall deliver a new Warrant Certificate to the persons entitled thereto.

Section 3. Term of Warrants; Exercise of Warrants.

3.1 Subject to the terms of this Agreement and Certificate, the Warrant Holder has the right, which may be exercised commencing immediately and ending at 5:00 p.m. Mountain Time on the Termination Date, to purchase from the Company the number of Shares which the Warrant Holder may at that time be entitled to purchase on exercise of this Warrant.

3.2 A Warrant shall be exercised by surrender to the Company, at its principal office, of this Warrant Agreement and Certificate, together with the form of election to purchase attached hereto as Exhibit A, duly completed and signed, and payment to the Company of the Exercise Price (as defined in accordance with the provisions of Section 4 hereof) for the number of Shares in respect of which such Warrant is then exercised. Except as provided in Section 3.3, payment of the aggregate Exercise Price shall be made in cash or certified funds.

3.3 In addition to and without limiting the rights of the Holder under the terms of this Warrant, the Holder shall have the right (the "Conversion Right") to convert this Warrant or any portion thereof into Shares as provided in this Section 3.3 at any time prior to the Termination Date.

a. Upon exercise of the Conversion Right with respect to a particular number of Shares (the "Converted Shares"), the Company shall deliver to the Holder, without payment by the Holder of any Exercise Price or any cash or other consideration, that number of Shares equal to the quotient obtained by dividing the Net Value (as hereinafter defined) of the Converted Shares by the fair market value (as defined in paragraph 3.3(c) below) of a single Share, determined in each case as of the close of business on the Conversion Date (as hereinafter defined). The "Net Value" of the Converted Shares shall be determined by subtracting the aggregate Exercise Price of the Converted Shares from the aggregate fair market value of the Converted Shares. No fractional securities shall be issuable upon exercise of the Conversion Right, and if the number of securities to be issued in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash equal to the fair market value of the resulting fractional Share.

b. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the principal office of the Company or at the office of the Company's stock transfer agent, if any, together with a written statement specifying that the Holder thereby intends to exercise the Conversion Right and indicating the number of Shares subject to the Warrant which are being surrendered (referred to in subparagraph 3.3(a) above as the Converted Shares), in the form attached to and by this reference incorporated in this Warrant as Exhibit B, in exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"),

but not later than the expiration date of the Warrant. Certificates for the Converted Shares issuable upon exercise of the Conversion Right, together with a check in payment of any fractional Warrant Share and, in the case of a partial exercise a new warrant evidencing the Warrant Shares remaining subject to the Warrant, shall be issued as of the Conversion Date and shall be delivered to the Holder within twenty-one days following the Conversion Date.

c. For purposes of this Section 2.3, the "fair market value" of a Share as of a particular date shall be its "market price," which, for purposes of this Section 2.3 shall mean, if the Shares are traded on a securities exchange or on Nasdaq, the closing price of the Shares on such exchange or the last sale price on Nasdaq, or, if the Shares are otherwise traded in the over-the-counter market, the average of the closing bid and ask price, in each case averaged over a period of five consecutive trading days prior to the date as of which "market price" is being determined. If at any time the Shares are not traded on an exchange or Nasdaq, or otherwise traded in the over-the-counter market, the "market price" shall be deemed to be the fair value thereof determined in good faith by the Board of Directors of the Company as of a date which is within 15 days of the date as of which the determination is to be made.

3.4 Subject to Section 5 hereof, upon surrender of a Warrant Agreement and Certificate and payment of the Exercise Price as aforesaid, the Company shall issue and cause to be delivered with all reasonable dispatch to or upon the written order of the Warrant Holder exercising such Warrant and in such name or names as such Warrant Holder may designate, certificates for the number of Shares so purchased upon the exercise of such Warrant. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Shares as of the date of receipt by the Company of such Warrant Agreement and Certificate and payment of the Exercise Price. The rights of purchase represented by the Warrants shall be exercisable, at the election of the Warrant Holders thereof, either in full or from time to time in part and, in the event that a Warrant Agreement and Certificate is exercised to purchase less than all of the Shares purchasable on such exercise at any time prior to the Termination Date, a new Warrant Agreement and Certificate evidencing the remaining Warrant or Warrants will be issued.

3.5 The Warrant Holder will pay all documentary stamp taxes, if any, attributable to the initial issuance of the Shares upon the exercise of Warrants.

4. Registration Rights.

4.1 The Warrant Holder shall have the following rights with respect to registration by the Company of the shares of Common Stock issuable upon exercise of this Warrant. Such shares are referred to hereafter as the "Warrant Shares."

a. At any time within the period commencing one year from the date hereof and expiring six years from the date hereof, whenever the Company files a registration statement under the Securities Act of 1933 which relates to an initial public offering of the Company's Common Stock, the Company shall offer to the Warrant Holder the opportunity to register or qualify the Warrant Shares for public sale, and the Company shall be required to include the Warrant Shares in

the registration statement if the holders of a majority of the Warrant Shares (calculated as if all placement agent warrants had been exercised) request that their Warrant Shares be included; provided, however, that if the offering to which the proposed registration statement relates is an underwritten offering and such underwriter objects to the inclusion of the Warrant Shares in such registration statement, the Company shall be under no obligation to include any Warrant Shares, except that the Warrant Holder shall be entitled to have its Warrant Shares included pro rata with all other selling Warrant Holders. The Company will pay all fees of such registration, other than underwriters' discounts or commissions relating to Warrant Shares registered on behalf of the Warrant Holder and fees of separate counsel, if any, engaged by the Warrant Holder. The Company shall give 20 days' prior written notice to the Warrant Holder of the Company's intention to file a registration statement under the Act, which notice shall constitute an offer to the Warrant Holder to have its Warrant Shares included in such registration statement as long as a majority of the Warrant Holders so elect, and the Warrant Holder shall notify the Company in writing within ten days after receipt of such notice if the Warrant Holder desires to accept such offer. Neither the delivery of such notice nor the acceptance by the Warrant Holder of such offer (such Warrant Holder a "Participating Warrant Holder") shall obligate the Company to file such registration statement and, notwithstanding the actual filing of the registration statement, the Company may at any time prior to its effectiveness elect not to pursue the registration without liability to the Warrant Holder.

b. In the event the underwriter for the Company's initial public offering of its Common Stock objects to the inclusion of all Warrant Shares held by Warrant Holders who elected to be included in the registration statement under the preceding paragraph, then not less than a majority of the Warrant Holders of those Warrant Shares excluded due to the underwriter's objection may demand that the Company effect a registration on Form S-3 to include the previously excluded Warrant Shares. The Company will use commercially reasonable efforts to effect as soon as practicable the registration under the Act of all such previously excluded Warrant Shares. This right to demand registration on Form S-3 is effective only if the Company is eligible to use Form S-3.

c. The Company's contractual obligation to include the Warrant Shares on behalf of the Warrant Holder in a registration statement filed on behalf of the Company shall be subject to the reasonable cooperation of the Warrant Holder with the Company. The Warrant Shares held by the Warrant Holder may be excluded from a registration statement at the election of the Company in the event all information essential for the Company and its counsel to prepare the registration statement is not furnished by the Warrant Holder, after the Warrant Holder, upon written request of the Company or its counsel, has been given a reasonable amount of time (not less than ten business days from the date such request has been sent to the Warrant Holder) to transmit the requested information to the Company and/or its counsel.

4.2 A Participating Warrant Holder will provide the Company such information relating to the Participating Warrant Holder and its plan of distribution as may be necessary for the completion of the registration statement.

4.3 In the event of any registration under the Act of any of the Warrant Shares pursuant to this Agreement, the Company will use its best efforts to obtain blue sky qualification of the Warrant

Shares in Colorado and Arizona and in such other states as the Company may agree upon reasonable request of the Participating Warrant Holder.

4.4 In the event of any registration under the Act of any of the Warrant Shares pursuant to this Agreement, the Participating Warrant Holder will be responsible for ensuring that the Warrant Shares are sold in strict compliance with the registration statement (including, without limitation, the plan of distribution to be included therein) and all other applicable federal and state securities laws and regulations.

4.5 In the event of any registration under the Act of any of the Warrant Shares pursuant to this Agreement, the Company will agree to indemnify and hold harmless each Participating Warrant Holder and each underwriter, and each other affiliate of a Participating Warrant Holder or such underwriter within the meaning of the Act against any losses, claims, damages or liabilities, joint or several, to which any Participating Warrant Holder or such underwriter or such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any such registration statement, any preliminary prospectus or final prospectus contained therein or any amendment thereof or supplement thereto, or any document incident to registration or qualification of the Warrant Shares covered thereby under state securities or blue sky laws, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein, or any violation by the Company of the Act or state securities or blue sky laws applicable to the Company and relating to any action or inaction required by the Company in connection with such registration or qualification under such state securities or blue sky laws; provided, however that the Company will not be liable in any such case to any indemnified person to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, said preliminary prospectus or said prospectus or said amendment or supplement, or any document incident to registration or qualification under state securities or blue sky laws, in reliance upon and in conformity with any information furnished in writing to the Company or its counsel by such indemnified person specifically for use in the preparation thereof or if such loss, claim, damage, liability or action arose out of the violation of any duty to which the Participating Warrant Holder may be subject, including the obligation to deliver a copy of any prospectus, supplement or amendment to a purchaser of the Warrant Shares and such prospectus, supplement or amendment was made available to the Participating Warrant Holder by the Company.

4.6 In the event of any registration of the Warrant Shares under the Act pursuant to this Agreement, each Participating Warrant Holder will agree to indemnify and hold harmless the Company and each affiliate and controlling person, as defined by the Act, of the Company, each officer or employee of the Company who signs the registration statement, each director of the Company, any agent of the Company and each underwriter, and any and all affiliates and controlling persons, as defined by the Act, of such persons against any and all such losses, claims, damages or liabilities as the Participating Warrant Holders and others are indemnified against by the Company and will reimburse the Company and each of the foregoing persons for any losses, claims, damages or liabilities (or actions in respect thereof) and for any legal or any other expenses incurred by each

such person, if the statement or omission in respect of which such loss, claim, damage or liability is asserted was made in reliance upon and in conformity with information furnished to the Company in writing by such Participating Warrant Holder or on its behalf specifically for use in connection with the preparation of such registration statement or prospectus.

Section 5. Adjustment of Exercise Price and Shares.

5.1 If the Company shall at any time subdivide its outstanding Common Stock by recapitalization, reclassification or split-up thereof, the number of Shares of Common Stock subject to this Warrant immediately prior to such subdivision shall be proportionately increased, and if the Company shall at any time combine the outstanding Common Stock by recapitalization, reclassification or combination thereof, the number of Shares of Common Stock subject to this Warrant immediately prior to such combination shall be proportionately decreased. Any corresponding adjustment to the Exercise Price shall become effective at the close of business on the record date for such subdivision or combination.

5.2 In the event of a dividend (other than in shares of Common Stock of the Company), the proposed dissolution or liquidation of the Company, or any corporate separation or division, including, but not limited to, a split-up, split-off or spin-off, or a merger or consolidation of the Company with another Company, or the sale of all or substantially all of the assets of the Company, the Board may provide that each Warrantholder will have the right to exercise this Warrant (at its then current Exercise Price) solely for the kind and amount of shares of stock and other securities, property, cash or any combination thereof receivable upon such dissolution, liquidation, corporate separation or division, or merger or consolidation by a holder of the number of shares of Common Stock for which this Warrant might have been exercised immediately prior to such dissolution, liquidation, corporate separation or division, or merger or consolidation; or, in the alternative, the Board may provide that this Warrant will terminate as of a date fixed by the Board; provided, however that not less than 30 days' written notice of the date so fixed must be given to the Warrantholder, who will have the right, during the period of 30 days preceding such termination, to exercise this Warrant as to all or any part of the shares of Common Stock covered by this Warrant.

5.3 The preceding paragraph will not apply to a merger or consolidation in which the Company is the surviving Company and shares of Common Stock are not converted into or exchanged for stock, securities of any other Company, cash or any other thing of value. Notwithstanding the preceding sentence, in case of any consolidation or merger of another Company into the Company in which the Company is the surviving Company and in which there is a reclassification or change (including a change to the right to receive cash or other property) of the shares of Common Stock (excluding a change in par value, or from no par value to par value, or any change as a result of a subdivision or combination, but including any change in such shares into two or more classes or series of shares), the Board may provide that the holder of this Warrant will have the right to exercise this Warrant solely for the kind and amount of shares of stock and other securities (including those of any new direct or indirect parent of the Company), property, cash or any combination thereof receivable upon such reclassification, change, consolidation or merger by the holder of the number of shares of Common Stock for which this Warrant might have been exercised.

5.4 In the event of a change in the Common Stock of the Company as presently constituted into the same number of shares with a different par value, the shares resulting from any such change will be deemed to be the Common Stock of the Company within the meaning of this agreement.

5.5 The Company agrees that without the Warrant Holder's consent or absent consent, without a reasonable adjustment to the Exercise Price of this Warrant, no shares of Common Stock, and no securities convertible into shares of Common Stock, will be issued at a price per share (or a conversion price, if applicable) less than the fair market value of the Company's Common Stock on the date of issuance; provided, however that this paragraph will not apply to: (i) options granted under the Company's 1998 Stock Option Plan; or (ii) securities issued in connection with any merger or acquisition.

5.6 To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments will be made in good faith by the Board.

5.7 Except as expressly provided in this Warrant, the Warrantholder will have no rights by reason of any subdivision or consolidation of shares of stock of any class, or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class, or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another Company; and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, will not affect, and no adjustment will be made with respect to, the number or price of shares of Common Stock subject to this Warrant. The grant of this Warrant will not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structures, or to merge or consolidate, or to dissolve, liquidate, or sell or transfer all or any part of its business or assets.

Section 6. Mutilated or Missing Warrant Certificates. In case any Warrant Certificate shall be mutilated, lost, stolen or destroyed, the Company shall, at the request of the holder of such Certificate, issue and deliver, in exchange and substitution for and upon cancellation of the mutilated Certificate, or in lieu of and substitution for the Certificate, lost, stolen or destroyed, a new Warrant Certificate of like tenor and representing an equivalent right or interest; but only upon receipt of evidence satisfactory to the Company of such loss, theft or destruction of such Warrant Certificate and indemnity, if requested, also satisfactory to the Company. An applicant for such a substitute Warrant Certificate shall also comply with such other reasonable regulations and pay such other reasonable charges as the Company may prescribe.

Section 7. Reservation of Shares of Common Stock. There has been reserved, and the Company shall at all times keep reserved so long as any of the Warrants remain outstanding, out of its authorized Common Stock a number of shares of Common Stock sufficient to provide for the exercise of the rights of purchase represented by the outstanding Warrants and the underlying securities.

Section 8. No Fractional Shares. The Company shall not be required to issue fractional shares or scrip representing fractional shares upon the exercise of the Warrants. As to any final fraction of a Share which the Warrant Holder would otherwise be entitled to purchase upon such exercise, the

Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the market price of a share of Common Stock on the business day preceding the day of exercise.

Section 9. Transfer and Exercise to Comply With the Securities Act of 1933.

9.1 Neither the Warrants nor the Warrant Shares may be sold, transferred or otherwise disposed of except to a person, who, in the opinion of counsel for the Company, is a person to whom such securities may legally be transferred pursuant to the provisions of this Agreement without registration, and without the delivery of a current prospectus, under the Act with respect thereto.

9.2 Unless the Company has on file with the Securities and Exchange Commission a current registration statement to permit the Company to issue registered shares upon exercise of the Warrants, the Warrants may not be exercised except in a transaction exempt from registration under the Act.

9.3 The Company shall cause the following legend to be set forth on each Warrant Certificate and certificates representing the Warrant Shares, unless counsel for the Company is of the opinion as to any such Certificates that such legend is unnecessary:

> The securities represented by this certificate may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement made under the Securities Act of 1933 (the "Act"), or pursuant to an exemption from registration under the Act the availability of which is to be established to the satisfaction of the Company.

Section 10. Notices. Any notice pursuant to this Agreement by the Company or by the Warrant Holders shall be in writing and shall be deemed to have been duly given if delivered or mailed certified mail, return receipt requested, (a) if to the Company, to Natural Gas Services Group, Inc., 2911 So. County Road 1260, Midland, TX 79706, attn: President; and (b) if to the Warrant Holder, to the address set forth above. Each party hereto may from time to time change the address to which notices to it are to be delivered or mailed hereunder by notice in accordance herewith to the other party.

Section 11. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Holders shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 12. Applicable Law. This Warrant Agreement and Certificate and any replacement Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Colorado and for all purposes shall be construed in accordance with the laws of said State.

Section 13. Benefits of This Agreement. Nothing in this Agreement shall be construed to give to any person or Company other than the Company and the Warrant Holders any legal or equitable right, remedy or claim under this Agreement and this Agreement shall be for the sole and exclusive benefit of the Company and the Warrant Holders.

DATED: __________________, 2001

NATURAL GAS SERVICES GROUP, INC.

By:______________________________
Wallace Sparkman, President

EXHIBIT A

PURCHASE FORM

DATED _______________, ____

THE UNDERSIGNED HEREBY IRREVOCABLY ELECTS TO EXERCISE THE WARRANT REPRESENTED BY THIS WARRANT CERTIFICATE TO THE EXTENT OF PURCHASING __________ SHARES OF NATURAL GAS SERVICES GROUP, INC. AND HEREBY MAKES PAYMENT OF $3.25 PER SHARE IN PAYMENT OF THE EXERCISE PRICE THEREOF.

INSTRUCTIONS FOR REGISTRATION OF STOCK

NAME:

____
(PLEASE TYPE OR PRINT IN BLOCK LETTERS)

ADDRESS:

____

SIGNATURE____

DATED: ___________________,______

- ---

ASSIGNMENT FORM

FOR VALUE RECEIVED, __________________________, HEREBY SELLS, ASSIGNS AND TRANSFERS UNTO

NAME:

____
(PLEASE TYPE OR PRINT IN BLOCK LETTERS)

ADDRESS:

____
THE RIGHT TO PURCHASE SHARES OF NATURAL GAS SERVICES GROUP, INC. REPRESENTED BY THIS WARRANT CERTIFICATE TO THE EXTENT OF _________ SHARES AS TO WHICH SUCH RIGHT IS EXERCISABLE AND DOES HEREBY IRREVOCABLY CONSTITUTE AND APPOINT NATURAL GAS SERVICES GROUP, INC. TO TRANSFER THE SAME ON THE BOOKS OF THE COMPANY WITH FULL POWER OF SUBSTITUTION IN THE PREMISES.

____
SIGNATURE

DATED: ___________________,______

NOTICE: THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS IT APPEARS UPON THE FACE OF THIS WARRANT CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

EXHIBIT B

WARRANT CONVERSION EXERCISE FORM

TO: NATURAL GAS SERVICES GROUP, INC.

Pursuant to Section 2.3 of the Warrant Certificate from Natural Gas Services Group, Inc. (the "Company") to the undersigned Holder, the Holder hereby irrevocably elects to convert Warrants with respect to Shares of the Company into ___________ Shares of the Company.

A conversion calculation is attached hereto as Exhibit B-1.

The undersigned requests that certificates for such Shares be issued as follows:

Name: ____

Address: ____

____

Deliver to: ____

and that a new Warrant Certificate for the balance remaining of the Warrants, if any, subject to the Warrant be registered in the name of, and delivered to, the undersigned at the address stated above.

Dated: _______________________

____
[NAME OF WARRANT HOLDER]

EXHIBIT B-1

CALCULATION OF WARRANT CONVERSION

$$\text{Shares to be Delivered by Company} = \frac{\text{Net Value}}{\text{fmv}}$$

fmv = $____________

Net Value = aggregate fmv of Converted Shares - aggregate Exercise Price of Converted Shares

= $____________ - $____________

= $____________

Shares to be Delivered by Company = _____________

Fractional Shares = ____________

Exhibit 10.11

STOCK PURCHASE WARRANT

TO SUBSCRIBE FOR AND PURCHASE
10% CONVERTIBLE SERIES A PREFERRED STOCK

OF

NATURAL GAS SERVICES GROUP, INC.

THIS CERTIFIES THAT, for value received, Neidiger,Tucker,Bruner, Inc. (herein called "Purchaser"), or its registered assigns, is entitled to subscribe for and purchase from Natural Gas Services Group, Inc. (herein called the "Company"), a corporation organized and existing under the laws of the State of Colorado, at the price specified below (subject to adjustment as noted below) at any time after the date hereof to and including July 31, 2006 (the "Expiration Date") Thirty Eight Thousand One Hundred Sixty Five (38,165) fully paid and nonassessable shares of the Company's 10% Convertible Series A Preferred Stock (herein the "Preferred Stock") (subject to adjustments as noted below).

The Warrant purchase price shall be $3.25 per share of Preferred Stock, provided the number of shares of the Company's common stock which may be obtained upon conversion of the Preferred Stock may be adjusted from time to time as set forth in the Company's Articles of Amendment to Articles of Incorporation filed with the Colorado Secretary of State on July 30, 2001 ("Amendment").

This Warrant is subject to the following provisions, terms and conditions:

1. The rights represented by this Warrant may be exercised by the holder hereof, in whole or in part, by written notice of exercise delivered to the Company 20 days prior to the intended date of exercise and by the surrender of this Warrant (properly endorsed if required) at the principal office of the Company and upon payment to it by official bank check of the purchase price for such shares. The Company agrees that the shares so purchased shall be and are deemed to be issued to the holder hereof as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for such shares as aforesaid. Subject to the provisions of the next succeeding paragraph, certificates for the shares of stock so purchased shall be delivered to the holder hereof within a reasonable time, not exceeding 10 days, after the rights represented by this Warrant shall have been so exercised, and, unless this Warrant has expired, a new Warrant representing the number of shares, if any, with respect to which this Warrant shall not then have been exercised shall also be delivered to the holder hereof within such time.

2. Notwithstanding the foregoing, however, the Company shall not be required to deliver any certificate for shares of stock upon exercise of this Warrant except in accordance with the provisions, and subject to the limitations, of paragraph 7 hereof.

3. The Company represents and warrants that this Warrant has been duly authorized by all necessary corporate action, has been duly executed and delivered and is a legal and

binding obligation of the Company. The Company covenants and agrees that all shares of Preferred Stock which may be issued upon the exercise of the rights represented by this Warrant according to the terms hereof will, upon issuance, be duly authorized and issued, fully paid and nonassessable. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved for the purpose of issue or transfer upon exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of its Preferred Stock to provide for the exercise of the rights represented by this Warrant.

4. This Warrant is issued in connection with the private placement of the Company's 10% Convertible Series A Preferred Stock, the Preferred Stock issuable pursuant to the exercise of this Warrant shall be the Company's 10% Convertible Series A Preferred Stock, and the Holder shall have the benefit of the rights and adjustments set forth in the Amendment as if the Preferred Stock underlying the Warrants were issued as of the date hereof.

5. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a stockholder of the Company.

6. The holder of this Warrant, by acceptance hereof, agrees to give written notice to the Company before transferring this Warrant or transferring any Preferred Stock issuable or issued upon the exercise hereof of such holder's intention to do so, describing briefly the manner of any proposed transfer of this Warrant or such holder's intention as to the disposition to be made of shares of Preferred Stock issuable or issued upon the exercise hereof. Such holder shall also provide the Company with a counsel's opinion satisfactory to the Company to the effect that the proposed transfer of this Warrant or disposition of shares of Preferred Stock may be effected without registration or qualification (under any Federal or state law) of this Warrant or the shares of Preferred Stock issuable or issued upon the exercise hereof. Upon receipt of such written notice and opinion by the Company, such holder shall be entitled to transfer this Warrant, or to exercise this Warrant in accordance with its terms and dispose of the shares of Preferred Stock received upon such exercise or to dispose of shares of Preferred Stock received upon the previous exercise of this Warrant, all in accordance with the terms of the notice delivered by such holder to the Company, provided that an appropriate legend respecting the aforesaid restrictions on transfer and disposition may be endorsed on this Warrant or the certificates for such shares of Preferred Stock.

7. Subject to the provisions of paragraph 6 hereof, this Warrant and all rights hereunder are transferable, in whole or in part, at the principal office of the Company by the holder hereof in person or by duly authorized attorney, upon surrender of this Warrant properly endorsed. Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that the bearer of this Warrant, when endorsed, may be treated by the Company and all other persons dealing with this Warrant as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant, or to the transfer hereof on the books of the Company, any notice to the contrary notwithstanding; but until such transfer on such books, the Company may treat the registered holder hereof as the owner for all purposes.

8. This Warrant is exchangeable, upon the surrender hereof by the holder hereof at the principal office of the Company, for new Warrants of like tenor representing in the aggregate the right to subscribe for and purchase the number of shares of Preferred Stock which may be subscribed for and purchased hereunder, each of such new Warrants to represent the right to subscribe for and purchase such number of shares of Preferred Stock as shall be designated by said holder hereof at the time of such surrender.

9. The Company covenants and agrees as follows:

(a) For purposes of this Section 9:

(i) The term "register", "registered" and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document;

(ii) The term "Registrable Securities" means any Common Stock of the Company issued or issuable upon the conversion of the Preferred Stock.

(iii) "Securities Act" means the Securities Act of 1933, as amended.

(iv) The term "Securities Holder" means any person owning or having the right to acquire the Preferred Stock or Registrable Securities or any assignee thereof, including without limitation and without need for an express assignment, subsequent holders of the Preferred Stock or Registrable Securities; and

(v) The term "Form S-3" means such form under the Securities Act as in effect on the date hereof or any registration form under the Securities Act subsequently adopted by the Securities and Exchange Commission ("SEC") which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(b) (i) If the Company shall receive at any time after July 31, 2002 and before August 1, 2006, a written request from the Securities Holders of a majority of the Preferred Stock and of the Registrable Securities then outstanding that the Company file a registration statement under the Securities Act covering the registration of all or a portion of the Registrable Securities then outstanding, then the Company shall, within ten (10) days of the receipt thereof, give written notice of such request to all Securities Holders and shall, subject to the limitations of subsections 9(b)(ii) and 9(b)(iii), use its best efforts to effect as soon as practicable, and in any event within 120 days of the receipt of such request, the registration under the Securities Act of all Registrable Securities which the Securities Holders request to be registered within twenty (20) days of the mailing of such notice by the Company.

(ii) If the Securities Holders initiating the registration request hereunder ("Initiating Holders") intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 9 and the Company shall include such information in the written notice referred to in subsection 9(b)(i). In such event, the right of any Securities Holder to include the Securities Holder's Registrable Securities in such registration shall be conditioned upon such Securities Holder's participation in such underwriting and the inclusion of such Securities Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority of the Initiating Securities Holders and such Securities Holder to the extent provided herein). All Securities Holders proposing to distribute their Registrable Securities through such underwriting shall (together with the Company as provided in subsection 9(d)(v)) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting. Notwithstanding any other provision of this Section 9, if the underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Initiating Holders shall so advise all Securities Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the underwriting shall be allocated among all Securities Holders thereof, including the Initiating Holders, in proportion (as nearly as practicable) to the amount of Registrable Securities of the Company owned by each Securities Holder; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting.

(iii) The Company is obligated to effect only one (1) such registration pursuant to this Section 9.

(c) If (but without any obligation to do so) after July 31, 2002 and before August 1, 2008, the Company proposes to register (including for this purpose a registration effected by the Company for shareholders other than the Securities Holders) any of its stock or other securities under the Securities Act in connection with the public offering of such securities solely for cash (other than a registration relating solely to the sale of securities to participants in a Company stock plan, or a registration on any form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities or an SEC Rule 145 transaction), the Company shall, at such time, promptly give each Securities Holder written notice of such registration. Upon the written request of each Securities Holder given within twenty (20) days after mailing of such notice by the Company, the Company shall, subject to the provisions of Section 9(h), cause to be registered under the Securities Act all of the Registrable Securities that each such Securities Holder has requested to be registered.

(d) Whenever required under this Section 9 to effect the registration of any Registrable Securities, the Company shall:

(i) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Securities Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to 180 days.

(ii) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(iii) Furnish to the Securities Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(iv) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Securities Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(v) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Securities Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(vi) Notify each Securities Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(e) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 9 with respect to the Registrable Securities of any selling Securities Holder that such Securities Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended

method of disposition of such securities as shall be required to effect the registration of such Securities Holder's Registrable Securities.

(f) All expenses other than underwriting discounts and commissions and non-accountable expenses, incurred in connection with registrations, filings or qualifications pursuant to Section 9(b), including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, reasonable fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of one counsel for the selling Securities Holders, shall be borne by the Company.

(g) The Company shall bear and pay all expenses incurred in connection with any registration, filing or qualification of Registrable Securities with respect to any registrations pursuant to Section 9(c) for each Securities Holder, including (without limitation) all registration, filing and qualification fees, printers and accounting fees relating or apportionable thereto and the fees and disbursements of one counsel for the selling Securities Holders selected by them, but excluding underwriting discounts and commissions and non-accountable expenses relating to Registrable Securities.

(h) In connection with any offering involving an underwriting of shares of the Company's capital stock, the Company shall not be required under Section 9(c) to include any of the Securities Holders' Registrable Securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by the persons entitled to select the underwriters, and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of Registrable Securities requested by Securities Holders to be included in such offering exceeds the amount of securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters determine in their sole discretion will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among all selling stockholders according to the total amount of securities owned by each selling stockholder or in such other proportions as shall mutually be agreed to by such selling stockholders). For purposes of the preceding parenthetical concerning apportionment, for any selling stockholder which is a holder of Registrable Securities and which is a partnership or corporation, the partners, retired partners and stockholders of such holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling stockholder", and any pro rata reduction with respect to such "selling stockholder" shall be based upon the aggregate amount of shares owned by all entities and individuals included in such "selling stockholder", as defined in this sentence. Those Registrable Securities which are thus excluded from the underwritten public offering shall be withheld from the market by the holders thereof for a period, not to exceed 90 days, which the underwriters reasonably determine is necessary in order to effect the underwritten public offering.

(i) No Securities Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 9.

(j) In the event any Registrable Securities are included in a registration statement under this Section 9:

(i) The Company will indemnify and hold harmless each Securities Holder, any underwriter (as defined in the Securities Act) for such Securities Holder and each person, if any, who controls such Securities Holder or underwriter within the meaning of the Securities Act or the Securities Exchange Act of 1934, as amended (the "1934 Act"), against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Securities Act, or the 1934 Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (1) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (2) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (3) any violation or alleged violation by the Company of the Securities Act, the 1934 Act, any state securities law or any rule or regulation promulgated under the Securities Act, or the 1934 Act or any state securities law; and, subject to subparagraph (iii) below, the Company will pay to each such Securities Holder, underwriter or controlling person, as incurred, any legal or other expenses reasonably incurred by one law firm retained by them (or such additional law firms retained by a Securities Holder or Securities Holders if such Securities Holder or Securities Holders reasonably believe there exists a conflict of interest among them) in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this subsection 9(j)(i) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Securities Holder, underwriter or controlling person.

(ii) Each selling Securities Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter, any other Securities Holder selling securities in such registration statement and any controlling person of any such underwriter or other Securities Holder, against any losses, claims, damages

or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Securities Act, or the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Securities Holder expressly for use in connection with such registration; and each such Securities Holder will pay, as incurred, any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this subsection 9(j)(ii), in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this subsection 9(j)(ii) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Securities Holder, which consent shall not be unreasonably withheld; and provided, further that, in no event shall any indemnity under this subsection 9(j)(ii) exceed the net proceeds from the offering received by such Securities Holder.

(iii) Promptly after receipt by an indemnified party under this Section 9(j) of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereto is to be made against any indemnified party under this Section 9(j), deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 9(j), but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 9(j).

(iv) The obligations of the Company and Securities Holders under this Section 9(j) shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 9, and otherwise.

(k) Without any obligation hereunder, or otherwise, to become a publicly reporting company under the 1934 Act, but with a view to making available to the

Securities Holder the benefits of Rule 144 promulgated under the Securities Act and any other rule or regulation of the SEC that may at any time permit a Securities Holder to sell Registrable Securities to the public without registration or pursuant to a registration on Form S-3, the Company agrees, if it becomes a publicly reporting company under such Act, to:

(i) make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times;

(ii) once qualified, maintain its qualification for registration on Form S-3 for the sale of the Registrable Securities;

(iii) file with the SEC in a timely manner all reports and other documents required by the Company under the Securities Act and the 1934 Act; and

(iv) furnish to any Securities Holder, so long as the Securities Holder owns any Registrable Securities, forthwith upon request (1) a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144, the Securities Act and the 1934 Act, or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3, (2) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (3) such other information as may be reasonably requested in availing any Securities Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

(l) From and after the date of this Agreement, the Company shall not, without the prior written consent of the Securities Holders of a majority of the outstanding Preferred Stock and Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder to include such securities in any registration filed under Section 9(b) or 9(c) hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration to the extent that the inclusion of such securities is junior to that of the Registrable Securities of the Securities Holders.

(m) Any provision of this Section 9 may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Securities Holders owning a majority of the Preferred Stock and Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this paragraph shall be binding, upon each Securities Holder of any Preferred Stock and Registrable Securities then outstanding, each future Securities Holder of all such Preferred Stock and Registrable Securities, and the Company.

10. (a) In addition to and without limiting the rights of the holder of this Warrant under the terms of this Warrant, the holder of this Warrant shall have the right (the "Conversion Right") to convert this Warrant or any portion thereof into shares of Preferred Stock as provided in this Section 10 at any time after 90 days from the date of issuance of this Warrant and then from time to time prior to its expiration. Upon exercise of the Conversion Right with respect to a particular number of shares of Preferred Stock subject to this Warrant (the "Converted Warrant Shares"), the Company shall deliver to the holder of this Warrant, without payment by the holder of any purchase or exercise price or any cash or other consideration, that number of shares of Preferred Stock equal to the quotient obtained by dividing the Net Value (as hereinafter defined) of the Converted Warrant Shares by the fair market value (as defined in paragraph (c) below) of a single share of Preferred Stock, determined in each case as of the close of business on the Conversion Date (as hereinafter defined). The "Net Value" of the Converted Warrant Shares shall be determined by subtracting the aggregate Warrant purchase price of the Converted Warrant Shares from the aggregate fair market value of the Converted Warrant Shares.

(b) The Conversion Right may be exercised by the holder of this Warrant by the surrender of this Warrant at the principal office of the Company together with a written statement specifying that the holder thereby intends to exercise the Conversion Right and indicating the number of shares of Preferred Stock subject to this Warrant which are being surrendered (referred to in paragraph (a) above as the Converted Warrant Shares) in exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"), but not later than the expiration date of this Warrant. Certificates for the shares of Preferred Stock issuable upon exercise of the Conversion Right, together with a check in payment of any fractional share and, in the case of a partial exercise, a new warrant evidencing the shares remaining subject to this Warrant, shall be issued as of the Conversion Date and shall be delivered to the holder of this Warrant within 10 days following the Conversion Date.

(c) For purposes of this Section 10, "fair market value" of a share of Preferred Stock shall be determined as follows:

First, the number of shares of the Company's Common Stock into which each share of the Company's Preferred Stock is convertible under Article II.6(d)(i) of the Amendment shall be determined ("common share equivalent"); then

Second, the common share equivalent shall be multiplied by the per share market price of the Company's Common Stock. "Market price of the Company's Common Stock ("Market Price") shall mean:

(a) if the Common Stock is listed and registered on any national securities exchange or traded on The Nasdaq Stock Market ("Nasdaq"), the closing bid price;

(b) if such Common Stock is not at the time listed on any such exchange or traded on Nasdaq but is traded on the OTC Bulletin Board, or if not, on the over-the-counter market as reported by the National Quotation Bureau or other comparable service, the closing bid price for such stock; or

(c) if clauses (a) and (b) above are not applicable, the fair value per share of such Common Stock as determined in good faith and on a reasonable basis by the Board of Directors of the Company.

11. The Company covenants that all shares of Preferred Stock that may be issued and delivered to a Securities Holder upon the exercise of this Warrant and payment of the Warrant purchase price will be, upon such delivery, validly and duly issued, fully paid and nonassessable.

12. The Company covenants that:

(a) Subject to the terms and conditions contained herein, this Warrant shall be binding on the Company and its successors and shall inure to the benefit of the original Securities Holder and the successors and assigns of the Securities Holder.

(b) If the Company fails to perform any of its obligations hereunder, it shall be liable to the Securities Holder for all damages, costs and expenses resulting from the failure, including, but not limited to, all reasonable attorney's fees and disbursements.

(c) This Warrant cannot be changed or terminated or any performance or condition waived in whole or in part except by an agreement in writing signed by the party against whom enforcement of the change, termination or waiver is sought.

(d) If any provision of this Warrant shall be held to be invalid, illegal or unenforceable, such provision shall be severed, enforced to the extent possible, or modified in such a way as to make it enforceable, and the invalidity, illegality or unenforceability shall not affect the remainder of this Warrant.

13. All questions concerning this Warrant will be governed and interpreted and enforced in accordance with the internal law, not the law of conflicts, of the State of Colorado.

IN WITNESS WHEREOF, Natural Gas Services Group, Inc. has caused this Warrant to be signed by its duly authorized officer and this Warrant to be dated as of January 23, 2002.

NATURAL GAS SERVICES
GROUP, INC.

By: ______________________________________
Its: President

RESTRICTION ON TRANSFER

"The securities evidenced hereby may not be transferred without (i) the opinion of counsel satisfactory to this corporation that such transfer may be lawfully made without registration under the Federal Securities Act of 1933 and all applicable state securities laws or (ii) such registration."

SUBSCRIPTION FORM

To be Executed by the Holder of this Warrant if such
Holder Desires to Exercise this Warrant in Whole or in Part:

To: Natural Gas Services Group, Inc. (the "Company")

The undersigned

Please insert Social Security or other
identifying number of Subscriber:

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hereby irrevocably elects to exercise the right of purchase represented by this Warrant for, and to purchase thereunder, __________ shares of the Preferred Stock (the "Preferred Stock") provided for therein and tenders payment herewith to the order of the Company in the amount of $___________, such payment being made as provided on the face of this Warrant.

The undersigned requests that certificates for such shares of Preferred Stock be issued as follows:

Name:

Address:

Deliver to:

Address:
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and, if such number of shares of Preferred Stock shall not be all the shares of Preferred Stock purchasable hereunder, that a new Warrant for the balance remaining of the shares of Preferred Stock purchasable under this Warrant be registered in the name of, and delivered to, the undersigned at the address stated above.

Dated:

Signature

Note: The signature on this Subscription Form must correspond with the name as written upon the face of this Warrant in every particular, without alteration or enlargement or any change whatever.

FORM OF ASSIGNMENT
(To Be Signed Only Upon Assignment)

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto:

[NAME]

this Warrant, and appoints

[NAME]

to transfer this Warrant on the books of the Company with the full power of substitution in the premises. Dated: In the presence of:

(Signature must conform in all respects to the name of the holder as specified on the face of this Warrant without alteration, enlargement or any change whatsoever, and the signature must be guaranteed in the usual manner)

WARRANT CONVERSION EXERCISE FORM

TO: Natural Gas Services Group, Inc.

Pursuant to Section 10 of this Warrant, the Holder hereby irrevocably elects to convert this Warrant into shares of Preferred Stock of the Company. A conversion calculation is attached hereto as Exhibit A.

The undersigned requests that certificates for such Preferred Stock be issued as follows:

Name: --

Address: --

Deliver to: --

and that a new Warrant Certificate for the balance remaining of the Warrant Shares, if any, be registered in the name of, and delivered to, the undersigned at the address stated above.

Signature ------------------------------------

Dated ------------------------------------

Exhibit 10.12

THE WARRANTS AND UNDERLYING SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT"), AND ARE "RESTRICTED SECURITIES" AS THAT TERM IS DEFINED IN RULE 144 UNDER THE ACT. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

Warrant Certificate No. DG-___
Issue Date: March 31, 2001

WARRANT TO PURCHASE _________ SHARES
VOID AFTER 5:00 P.M., MOUNTAIN TIME, ON DECEMBER 31, 2006

NATURAL GAS SERVICES GROUP, INC.
WARRANT AGREEMENT AND CERTIFICATE

This certifies that, for value received, ___________, the registered holder hereof (the "Warrant Holder"), is entitled to purchase from Natural Gas Services Group, Inc., a Colorado corporation (the "Company") with its principal office located in Midland, Texas, at any time commencing on the Issue Date set forth above, and before 5:00 P.M., Mountain Time, on December 31, 2006 (the "Termination Date") at the purchase price of $2.50 per share (the "Exercise Price"), the number of shares of the Company's Common Stock (the "Shares") set forth above. The number of Shares purchasable upon exercise of this Warrant and the Exercise Price per Share shall be subject to adjustment from time to time as set forth in Section 5 below.

Section 1. Sale and Delivery of Warrant. The Warrants represented hereby were issued as consideration for guaranty of corporate debt in the amount of $_______ by the Warrant Holder.

Section 2. Transfer or Exchange of Warrant.

2.1 The Company shall be entitled to treat the registered owner of any Warrant (the "Warrant Holder") as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in such Warrant on the part of any other person, and shall not be liable for any registration of transfer of Warrants which are registered or to be registered in the name of a fiduciary or the nominee of a fiduciary unless made with the actual knowledge that a fiduciary or nominee is committing a breach of trust in requesting such registration of transfer, or with such knowledge of such facts that its participation therein amounts to gross negligence or bad faith.

2.2 This Warrant may not be sold, transferred, assigned or hypothecated except pursuant to all applicable federal and state securities laws.

2.3 A Warrant shall be transferable only on the books of the Company upon delivery of this Warrant Certificate duly endorsed by the Warrant Holder or by his duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to transfer.

Upon any registration of transfer, the Company shall deliver a new Warrant Certificate to the persons entitled thereto.

Section 3. Term of Warrants; Exercise of Warrants.

3.1 Subject to the terms of this Agreement and Certificate, the Warrant Holder has the right, which may be exercised commencing immediately and ending at 5:00 p.m. Mountain Time on the Termination Date, to purchase from the Company the number of Shares which the Warrant Holder may at that time be entitled to purchase on exercise of this Warrant.

3.2 A Warrant shall be exercised by surrender to the Company, at its principal office, of this Warrant Agreement and Certificate, together with the form of election to purchase attached hereto as Exhibit A, duly completed and signed, and payment to the Company of the Exercise Price (as defined in accordance with the provisions of Section 4 hereof) for the number of Shares in respect of which such Warrant is then exercised. Except as provided in Section 3.3, payment of the aggregate Exercise Price shall be made in cash or certified funds.

3.3 In addition to and without limiting the rights of the Holder under the terms of this Warrant, the Holder shall have the right (the "Conversion Right") to convert this Warrant or any portion thereof into Shares as provided in this Section 3.3 at any time prior to the Termination Date.

a. Upon exercise of the Conversion Right with respect to a particular number of Shares (the "Converted Shares"), the Company shall deliver to the Holder, without payment by the Holder of any Exercise Price or any cash or other consideration, that number of Shares equal to the quotient obtained by dividing the Net Value (as hereinafter defined) of the Converted Shares by the fair market value (as defined in paragraph 3.3(c) below) of a single Share, determined in each case as of the close of business on the Conversion Date (as hereinafter defined). The "Net Value" of the Converted Shares shall be determined by subtracting the aggregate Exercise Price of the Converted Shares from the aggregate fair market value of the Converted Shares. No fractional securities shall be issuable upon exercise of the Conversion Right, and if the number of securities to be issued in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash equal to the fair market value of the resulting fractional Share.

b. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the principal office of the Company or at the office of the Company's stock transfer agent, if any, together with a written statement specifying that the Holder thereby intends to exercise the Conversion Right and indicating the number of Shares subject to the Warrant which are being surrendered (referred to in subparagraph 3.3(a) above as the Converted Shares), in the form attached to and by this reference incorporated in this Warrant as Exhibit B, in exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"), but not later than the expiration date of the Warrant. Certificates for the Converted Shares issuable upon exercise of the Conversion Right, together with a check in payment of any fractional Warrant Share and, in the case of a partial exercise a new warrant evidencing the Warrant Shares remaining

subject to the Warrant, shall be issued as of the Conversion Date and shall be delivered to the Holder within twenty-one days following the Conversion Date.

c. For purposes of this Section 2.3, the "fair market value" of a Share as of a particular date shall be its "market price," which, for purposes of this Section 2.3 shall mean, if the Shares are traded on a securities exchange or on Nasdaq, the closing price of the Shares on such exchange or the last sale price on Nasdaq, or, if the Shares are otherwise traded in the over-the-counter market, the average of the closing bid and ask price, in each case averaged over a period of five consecutive trading days prior to the date as of which "market price" is being determined. If at any time the Shares are not traded on an exchange or Nasdaq, or otherwise traded in the over-the-counter market, the "market price" shall be deemed to be the fair value thereof determined in good faith by the Board of Directors of the Company as of a date which is within 15 days of the date as of which the determination is to be made.

3.4 Subject to Section 5 hereof, upon surrender of a Warrant Agreement and Certificate and payment of the Exercise Price as aforesaid, the Company shall issue and cause to be delivered with all reasonable dispatch to or upon the written order of the Warrant Holder exercising such Warrant and in such name or names as such Warrant Holder may designate, certificates for the number of Shares so purchased upon the exercise of such Warrant. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Shares as of the date of receipt by the Company of such Warrant Agreement and Certificate and payment of the Exercise Price. The rights of purchase represented by the Warrants shall be exercisable, at the election of the Warrant Holders thereof, either in full or from time to time in part and, in the event that a Warrant Agreement and Certificate is exercised to purchase less than all of the Shares purchasable on such exercise at any time prior to the Termination Date, a new Warrant Agreement and Certificate evidencing the remaining Warrant or Warrants will be issued.

3.5 The Warrant Holder will pay all documentary stamp taxes, if any, attributable to the initial issuance of the Shares upon the exercise of Warrants.

4. REGISTRATION RIGHTS

4.1 The Warrant Holder shall have the following rights with respect to registration by the Company of the shares of Common Stock issuable upon exercise of this Warrant. Such shares are referred to hereafter as the "Warrant Shares."

a. At any time within the period commencing one year from the date hereof and expiring six years from the date hereof, whenever the Company files a registration statement under the Securities Act of 1933 which relates to an initial public offering of the Company's Common Stock, the Company shall offer to the Warrant Holder the opportunity to register or qualify the Warrant Shares for public sale, and the Company shall be required to include the Warrant Shares in the registration statement if the holders of a majority of the Warrant Shares (calculated as if all placement agent warrants had been exercised) request that their Warrant Shares be included; provided, however, that if the offering to which the proposed registration statement relates is an

underwritten offering and such underwriter objects to the inclusion of the Warrant Shares in such registration statement, the Company shall be under no obligation to include any Warrant Shares, except that the Warrant Holder shall be entitled to have its Warrant Shares included pro rata with all other selling Warrant Holders. The Company will pay all fees of such registration, other than underwriters' discounts or commissions relating to Warrant Shares registered on behalf of the Warrant Holder and fees of separate counsel, if any, engaged by the Warrant Holder. The Company shall give 20 days' prior written notice to the Warrant Holder of the Company's intention to file a registration statement under the Act, which notice shall constitute an offer to the Warrant Holder to have its Warrant Shares included in such registration statement as long as a majority of the Warrant Holders so elect, and the Warrant Holder shall notify the Company in writing within ten days after receipt of such notice if the Warrant Holder desires to accept such offer. Neither the delivery of such notice nor the acceptance by the Warrant Holder of such offer (such Warrant Holder a "Participating Warrant Holder") shall obligate the Company to file such registration statement and, notwithstanding the actual filing of the registration statement, the Company may at any time prior to its effectiveness elect not to pursue the registration without liability to the Warrant Holder.

b. In the event the underwriter for the Company's initial public offering of its Common Stock objects to the inclusion of all Warrant Shares held by Warrant Holders who elected to be included in the registration statement under the preceding paragraph, then not less than a majority of the Warrant Holders of those Warrant Shares excluded due to the underwriter's objection may demand that the Company effect a registration on Form S-3 to include the previously excluded Warrant Shares. The Company will use commercially reasonable efforts to effect as soon as practicable the registration under the Act of all such previously excluded Warrant Shares. This right to demand registration on Form S-3 is effective only if the Company is eligible to use Form S-3.

c. The Company's contractual obligation to include the Warrant Shares on behalf of the Warrant Holder in a registration statement filed on behalf of the Company shall be subject to the reasonable cooperation of the Warrant Holder with the Company. The Warrant Shares held by the Warrant Holder may be excluded from a registration statement at the election of the Company in the event all information essential for the Company and its counsel to prepare the registration statement is not furnished by the Warrant Holder, after the Warrant Holder, upon written request of the Company or its counsel, has been given a reasonable amount of time (not less than ten business days from the date such request has been sent to the Warrant Holder) to transmit the requested information to the Company and/or its counsel.

4.2 A Participating Warrant Holder will provide the Company such information relating to the Participating Warrant Holder and its plan of distribution as may be necessary for the completion of the registration statement.

4.3 In the event of any registration under the Act of any of the Warrant Shares pursuant to this Agreement, the Company will use its best efforts to obtain blue sky qualification of the Warrant

Shares in such states as the Company may agree upon reasonable request of the Participating Warrant Holder.

4.4 In the event of any registration under the Act of any of the Warrant Shares pursuant to this Agreement, the Participating Warrant Holder will be responsible for ensuring that the Warrant Shares are sold in strict compliance with the registration statement (including, without limitation, the plan of distribution to be included therein) and all other applicable federal and state securities laws and regulations.

4.5 In the event of any registration under the Act of any of the Warrant Shares pursuant to this Agreement, the Company will agree to indemnify and hold harmless each Participating Warrant Holder and each underwriter, and each other affiliate of a Participating Warrant Holder or such underwriter within the meaning of the Act against any losses, claims, damages or liabilities, joint or several, to which any Participating Warrant Holder or such underwriter or such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any such registration statement, any preliminary prospectus or final prospectus contained therein or any amendment thereof or supplement thereto, or any document incident to registration or qualification of the Warrant Shares covered thereby under state securities or blue sky laws, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein, or any violation by the Company of the Act or state securities or blue sky laws applicable to the Company and relating to any action or inaction required by the Company in connection with such registration or qualification under such state securities or blue sky laws; provided, however that the Company will not be liable in any such case to any indemnified person to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, said preliminary prospectus or said prospectus or said amendment or supplement, or any document incident to registration or qualification under state securities or blue sky laws, in reliance upon and in conformity with any information furnished in writing to the Company or its counsel by such indemnified person specifically for use in the preparation thereof or if such loss, claim, damage, liability or action arose out of the violation of any duty to which the Participating Warrant Holder may be subject, including the obligation to deliver a copy of any prospectus, supplement or amendment to a purchaser of the Warrant Shares and such prospectus, supplement or amendment was made available to the Participating Warrant Holder by the Company.

4.6 In the event of any registration of the Warrant Shares under the Act pursuant to this Agreement, each Participating Warrant Holder will agree to indemnify and hold harmless the Company and each affiliate and controlling person, as defined by the Act, of the Company, each officer or employee of the Company who signs the registration statement, each director of the Company, any agent of the Company and each underwriter, and any and all affiliates and controlling persons, as defined by the Act, of such persons against any and all such losses, claims, damages or liabilities as the Participating Warrant Holders and others are indemnified against by the Company and will reimburse the Company and each of the foregoing persons for any losses, claims, damages or liabilities (or actions in respect thereof) and for any legal or any other expenses incurred by each

such person, if the statement or omission in respect of which such loss, claim, damage or liability is asserted was made in reliance upon and in conformity with information furnished to the Company in writing by such Participating Warrant Holder or on its behalf specifically for use in connection with the preparation of such registration statement or prospectus.

Section 5. Adjustment of Exercise Price and Shares.

5.1 If the Company shall at any time subdivide its outstanding Common Stock by recapitalization, reclassification or split-up thereof, the number of Shares of Common Stock subject to this Warrant immediately prior to such subdivision shall be proportionately increased, and if the Company shall at any time combine the outstanding Common Stock by recapitalization, reclassification or combination thereof, the number of Shares of Common Stock subject to this Warrant immediately prior to such combination shall be proportionately decreased. Any corresponding adjustment to the Exercise Price shall become effective at the close of business on the record date for such subdivision or combination.

5.2 In the event of a dividend (other than in shares of Common Stock of the Company), the proposed dissolution or liquidation of the Company, or any corporate separation or division, including, but not limited to, a split-up, split-off or spin-off, or a merger or consolidation of the Company with another Company, or the sale of all or substantially all of the assets of the Company, the Board may provide that each Warrantholder will have the right to exercise this Warrant (at its then current Exercise Price) solely for the kind and amount of shares of stock and other securities, property, cash or any combination thereof receivable upon such dissolution, liquidation, corporate separation or division, or merger or consolidation by a holder of the number of shares of Common Stock for which this Warrant might have been exercised immediately prior to such dissolution, liquidation, corporate separation or division, or merger or consolidation; or, in the alternative, the Board may provide that this Warrant will terminate as of a date fixed by the Board; provided, however that not less than 30 days' written notice of the date so fixed must be given to the Warrantholder, who will have the right, during the period of 30 days preceding such termination, to exercise this Warrant as to all or any part of the shares of Common Stock covered by this Warrant.

5.3 The preceding paragraph will not apply to a merger or consolidation in which the Company is the surviving Company and shares of Common Stock are not converted into or exchanged for stock, securities of any other Company, cash or any other thing of value. Notwithstanding the preceding sentence, in case of any consolidation or merger of another Company into the Company in which the Company is the surviving Company and in which there is a reclassification or change (including a change to the right to receive cash or other property) of the shares of Common Stock (excluding a change in par value, or from no par value to par value, or any change as a result of a subdivision or combination, but including any change in such shares into two or more classes or series of shares), the Board may provide that the holder of this Warrant will have the right to exercise this Warrant solely for the kind and amount of shares of stock and other securities (including those of any new direct or indirect parent of the Company), property, cash or any combination thereof receivable upon such reclassification, change, consolidation or merger by the holder of the number of shares of Common Stock for which this Warrant might have been exercised.

5.4 In the event of a change in the Common Stock of the Company as presently constituted into the same number of shares with a different par value, the shares resulting from any such change will be deemed to be the Common Stock of the Company within the meaning of this agreement.

5.5 The Company agrees that without the Warrant Holder's consent or absent consent, without a reasonable adjustment to the Exercise Price of this Warrant, no shares of Common Stock, and no securities convertible into shares of Common Stock, will be issued at a price per share (or a conversion price, if applicable) less than the fair market value of the Company's Common Stock on the date of issuance; provided, however that this paragraph will not apply to: (i) options granted under the Company's 1998 Stock Option Plan; or (ii) securities issued in connection with any merger or acquisition.

5.6 To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments will be made in good faith by the Board.

5.7 Except as expressly provided in this Warrant, the Warrantholder will have no rights by reason of any subdivision or consolidation of shares of stock of any class, or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class, or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another Company; and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, will not affect, and no adjustment will be made with respect to, the number or price of shares of Common Stock subject to this Warrant. The grant of this Warrant will not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structures, or to merge or consolidate, or to dissolve, liquidate, or sell or transfer all or any part of its business or assets.

Section 6. Mutilated or Missing Warrant Certificates. In case any Warrant Certificate shall be mutilated, lost, stolen or destroyed, the Company shall, at the request of the holder of such Certificate, issue and deliver, in exchange and substitution for and upon cancellation of the mutilated Certificate, or in lieu of and substitution for the Certificate, lost, stolen or destroyed, a new Warrant Certificate of like tenor and representing an equivalent right or interest; but only upon receipt of evidence satisfactory to the Company of such loss, theft or destruction of such Warrant Certificate and indemnity, if requested, also satisfactory to the Company. An applicant for such a substitute Warrant Certificate shall also comply with such other reasonable regulations and pay such other reasonable charges as the Company may prescribe.

Section 7. Reservation of Shares of Common Stock. There has been reserved, and the Company shall at all times keep reserved so long as any of the Warrants remain outstanding, out of its authorized Common Stock a number of shares of Common Stock sufficient to provide for the exercise of the rights of purchase represented by the outstanding Warrants and the underlying securities.

Section 8. No Fractional Shares. The Company shall not be required to issue fractional shares or scrip representing fractional shares upon the exercise of the Warrants. As to any final fraction of a Share which the Warrant Holder would otherwise be entitled to purchase upon such exercise, the

Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the market price of a share of Common Stock on the business day preceding the day of exercise.

Section 9. Transfer and Exercise to Comply With the Securities Act of 1933.

9.1 Neither the Warrants nor the Warrant Shares may be sold, transferred or otherwise disposed of except to a person, who, in the opinion of counsel for the Company, is a person to whom such securities may legally be transferred pursuant to the provisions of this Agreement without registration, and without the delivery of a current prospectus, under the Act with respect thereto.

9.2 Unless the Company has on file with the Securities and Exchange Commission a current registration statement to permit the Company to issue registered shares upon exercise of the Warrants, the Warrants may not be exercised except in a transaction exempt from registration under the Act.

9.3 The Company shall cause the following legend to be set forth on each Warrant Certificate and certificates representing the Warrant Shares, unless counsel for the Company is of the opinion as to any such Certificates that such legend is unnecessary:

> The securities represented by this certificate may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement made under the Securities Act of 1933 (the "Act"), or pursuant to an exemption from registration under the Act the availability of which is to be established to the satisfaction of the Company.

Section 10. Notices. Any notice pursuant to this Agreement by the Company or by the Warrant Holders shall be in writing and shall be deemed to have been duly given if delivered or mailed certified mail, return receipt requested, (a) if to the Company, to Natural Gas Services Group, Inc., 2911 So. County Road 1260, Midland, TX 79706, attn: President; and (b) if to the Warrant Holder, to the address set forth above. Each party hereto may from time to time change the address to which notices to it are to be delivered or mailed hereunder by notice in accordance herewith to the other party.

Section 11. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Holders shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 12. Applicable Law. This Warrant Agreement and Certificate and any replacement Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Colorado and for all purposes shall be construed in accordance with the laws of said State.

Section 13. Benefits of This Agreement. Nothing in this Agreement shall be construed to give to any person or Company other than the Company and the Warrant Holders any legal or equitable right, remedy or claim under this Agreement and this Agreement shall be for the sole and exclusive benefit of the Company and the Warrant Holders.

DATED: March 31, 2001 NATURAL GAS SERVICES GROUP, INC.

By:

Wallace Sparkman, President

EXHIBIT A

PURCHASE FORM

DATED _______________, ____

THE UNDERSIGNED HEREBY IRREVOCABLY ELECTS TO EXERCISE THE WARRANT REPRESENTED BY THIS WARRANT CERTIFICATE TO THE EXTENT OF PURCHASING __________ SHARES OF NATURAL GAS SERVICES GROUP, INC. AND HEREBY MAKES PAYMENT OF $2.50 PER SHARE IN PAYMENT OF THE EXERCISE PRICE THEREOF.

INSTRUCTIONS FOR REGISTRATION OF STOCK

NAME:

- --

(PLEASE TYPE OR PRINT IN BLOCK LETTERS)

ADDRESS:

- --

SIGNATURE

DATED:

------------------, ------

ASSIGNMENT FORM

FOR VALUE RECEIVED, __________________________, HEREBY SELLS, ASSIGNS AND TRANSFERS UNTO

NAME:

- --

(PLEASE TYPE OR PRINT IN BLOCK LETTERS)

ADDRESS:

- --

THE RIGHT TO PURCHASE SHARES OF NATURAL GAS SERVICES GROUP, INC. REPRESENTED BY THIS WARRANT CERTIFICATE TO THE EXTENT OF _________ SHARES AS TO WHICH SUCH RIGHT IS EXERCISABLE AND DOES HEREBY IRREVOCABLY CONSTITUTE AND APPOINT NATURAL GAS SERVICES GROUP, INC. TO TRANSFER THE SAME ON THE BOOKS OF THE COMPANY WITH FULL POWER OF SUBSTITUTION IN THE PREMISES.

- --

SIGNATURE

DATED:

------------------, ------

NOTICE: THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS IT APPEARS UPON THE FACE OF THIS WARRANT CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

EXHIBIT B

WARRANT CONVERSION EXERCISE FORM

TO: NATURAL GAS SERVICES GROUP, INC.

Pursuant to Section 2.3 of the Warrant Certificate from Natural Gas Services Group, Inc. (the "Company") to the undersigned Holder, the Holder hereby irrevocably elects to convert Warrants with respect to Shares of the Company into ___________ Shares of the Company.

A conversion calculation is attached hereto as Exhibit B-1.

The undersigned requests that certificates for such Shares be issued as follows:

Name: ---

Address: ---

Deliver to: ---

and that a new Warrant Certificate for the balance remaining of the Warrants, if any, subject to the Warrant be registered in the name of, and delivered to, the undersigned at the address stated above.

Dated: -------------------------

[NAME OF WARRANT HOLDER]

EXHIBIT B-1

CALCULATION OF WARRANT CONVERSION

Shares to be Delivered by Company	=	Net Value / fmv
fmv	=	$____________
Net Value	=	aggregate fmv of Converted Shares - aggregate Exercise Price of Converted Shares
	=	$____________ - $____________
	=	$____________
Shares to be Delivered by Company	=	_____________
Fractional Shares	=	____________

Exhibit 10.13

THE WARRANTS AND UNDERLYING SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT"), AND ARE "RESTRICTED SECURITIES" AS THAT TERM IS DEFINED IN RULE 144 UNDER THE ACT. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

Warrant Certificate No. DG-___
Issue Date: April 24, 2002

WARRANT TO PURCHASE ________ SHARES
VOID AFTER 5:00 P.M., MOUNTAIN TIME, ON APRIL 23, 2007

NATURAL GAS SERVICES GROUP, INC.
WARRANT AGREEMENT AND CERTIFICATE

This certifies that, for value received, _____________, the registered holder hereof (the "Warrant Holder"), is entitled to purchase from Natural Gas Services Group, Inc., a Colorado corporation (the "Company") with its principal office located in Midland, Texas, at any time commencing on the Issue Date set forth above, and before 5:00 P.M., Mountain Time, on April 23, 2007 (the "Termination Date") at the purchase price of $3.25 per share (the "Exercise Price"), the number of shares of the Company's Common Stock (the "Shares") set forth above. The number of Shares purchasable upon exercise of this Warrant and the Exercise Price per Share shall be subject to adjustment from time to time as set forth in Section 5 below.

Section 1. Sale and Delivery of Warrant. The Warrants represented hereby were issued as consideration for guaranty of additional corporate debt in the amount of $___________ by the Warrant Holder.

Section 2. Transfer or Exchange of Warrant.

2.1 The Company shall be entitled to treat the registered owner of any Warrant (the "Warrant Holder") as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in such Warrant on the part of any other person, and shall not be liable for any registration of transfer of Warrants which are registered or to be registered in the name of a fiduciary or the nominee of a fiduciary unless made with the actual knowledge that a fiduciary or nominee is committing a breach of trust in requesting such registration of transfer, or with such knowledge of such facts that its participation therein amounts to gross negligence or bad faith.

2.2 This Warrant may not be sold, transferred, assigned or hypothecated except pursuant to all applicable federal and state securities laws.

2.3 A Warrant shall be transferable only on the books of the Company upon delivery of this Warrant Certificate duly endorsed by the Warrant Holder or by his duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to

transfer. Upon any registration of transfer, the Company shall deliver a new Warrant Certificate to the persons entitled thereto.

Section 3. Term of Warrants; Exercise of Warrants.

3.1 Subject to the terms of this Agreement and Certificate, the Warrant Holder has the right, which may be exercised commencing immediately and ending at 5:00 p.m. Mountain Time on the Termination Date, to purchase from the Company the number of Shares which the Warrant Holder may at that time be entitled to purchase on exercise of this Warrant.

3.2 A Warrant shall be exercised by surrender to the Company, at its principal office, of this Warrant Agreement and Certificate, together with the form of election to purchase attached hereto as Exhibit A, duly completed and signed, and payment to the Company of the Exercise Price (as defined in accordance with the provisions of Section 4 hereof) for the number of Shares in respect of which such Warrant is then exercised. Except as provided in Section 3.3, payment of the aggregate Exercise Price shall be made in cash or certified funds.

3.3 In addition to and without limiting the rights of the Holder under the terms of this Warrant, the Holder shall have the right (the "Conversion Right") to convert this Warrant or any portion thereof into Shares as provided in this Section 3.3 at any time prior to the Termination Date.

a. Upon exercise of the Conversion Right with respect to a particular number of Shares (the "Converted Shares"), the Company shall deliver to the Holder, without payment by the Holder of any Exercise Price or any cash or other consideration, that number of Shares equal to the quotient obtained by dividing the Net Value (as hereinafter defined) of the Converted Shares by the fair market value (as defined in paragraph 3.3(c) below) of a single Share, determined in each case as of the close of business on the Conversion Date (as hereinafter defined). The "Net Value" of the Converted Shares shall be determined by subtracting the aggregate Exercise Price of the Converted Shares from the aggregate fair market value of the Converted Shares. No fractional securities shall be issuable upon exercise of the Conversion Right, and if the number of securities to be issued in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash equal to the fair market value of the resulting fractional Share.

b. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the principal office of the Company or at the office of the Company's stock transfer agent, if any, together with a written statement specifying that the Holder thereby intends to exercise the Conversion Right and indicating the number of Shares subject to the Warrant which are being surrendered (referred to in subparagraph 3.3(a) above as the Converted Shares), in the form attached to and by this reference incorporated in this Warrant as Exhibit B, in exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"), but not later than the expiration date of the Warrant. Certificates for the Converted Shares issuable upon exercise of the Conversion Right, together with a check in payment of any fractional Warrant Share and, in the case of a partial exercise a

new warrant evidencing the Warrant Shares remaining subject to the Warrant, shall be issued as of the Conversion Date and shall be delivered to the Holder within twenty-one days following the Conversion Date.

c. For purposes of this Section 2.3, the "fair market value" of a Share as of a particular date shall be its "market price," which, for purposes of this Section 2.3 shall mean, if the Shares are traded on a securities exchange or on Nasdaq, the closing price of the Shares on such exchange or the last sale price on Nasdaq, or, if the Shares are otherwise traded in the over-the-counter market, the average of the closing bid and ask price, in each case averaged over a period of five consecutive trading days prior to the date as of which "market price" is being determined. If at any time the Shares are not traded on an exchange or Nasdaq, or otherwise traded in the over-the-counter market, the "market price" shall be deemed to be the fair value thereof determined in good faith by the Board of Directors of the Company as of a date which is within 15 days of the date as of which the determination is to be made.

3.4 Subject to Section 5 hereof, upon surrender of a Warrant Agreement and Certificate and payment of the Exercise Price as aforesaid, the Company shall issue and cause to be delivered with all reasonable dispatch to or upon the written order of the Warrant Holder exercising such Warrant and in such name or names as such Warrant Holder may designate, certificates for the number of Shares so purchased upon the exercise of such Warrant. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Shares as of the date of receipt by the Company of such Warrant Agreement and Certificate and payment of the Exercise Price. The rights of purchase represented by the Warrants shall be exercisable, at the election of the Warrant Holders thereof, either in full or from time to time in part and, in the event that a Warrant Agreement and Certificate is exercised to purchase less than all of the Shares purchasable on such exercise at any time prior to the Termination Date, a new Warrant Agreement and Certificate evidencing the remaining Warrant or Warrants will be issued.

3.5 The Warrant Holder will pay all documentary stamp taxes, if any, attributable to the initial issuance of the Shares upon the exercise of Warrants.

4. REGISTRATION RIGHTS

4.1 The Warrant Holder shall have the following rights with respect to registration by the Company of the shares of Common Stock issuable upon exercise of this Warrant. Such shares are referred to hereafter as the "Warrant Shares."

a. At any time within the period commencing one year from the date hereof and expiring six years from the date hereof, whenever the Company files a registration statement under the Securities Act of 1933 which relates to an initial public offering of the Company's Common Stock, the Company shall offer to the Warrant Holder the opportunity to register or qualify the Warrant Shares for public sale, and the Company shall be required to include the Warrant Shares in the registration statement if the holders of a majority of the Warrant Shares (calculated as if all placement agent warrants had been exercised) request that their Warrant Shares be included; provided, however, that if the offering to which the proposed registration

statement relates is an underwritten offering and such underwriter objects to the inclusion of the Warrant Shares in such registration statement, the Company shall be under no obligation to include any Warrant Shares, except that the Warrant Holder shall be entitled to have its Warrant Shares included pro rata with all other selling Warrant Holders. The Company will pay all fees of such registration, other than underwriters' discounts or commissions relating to Warrant Shares registered on behalf of the Warrant Holder and fees of separate counsel, if any, engaged by the Warrant Holder. The Company shall give 20 days' prior written notice to the Warrant Holder of the Company's intention to file a registration statement under the Act, which notice shall constitute an offer to the Warrant Holder to have its Warrant Shares included in such registration statement as long as a majority of the Warrant Holders so elect, and the Warrant Holder shall notify the Company in writing within ten days after receipt of such notice if the Warrant Holder desires to accept such offer. Neither the delivery of such notice nor the acceptance by the Warrant Holder of such offer such Warrant Holder a "Participating Warrant Holder") shall obligate the Company to file such registration statement and, notwithstanding the actual filing of the registration statement, the Company may at any time prior to its effectiveness elect not to pursue the registration without liability to the Warrant Holder.

b. In the event the underwriter for the Company's initial public offering of its Common Stock objects to the inclusion of all Warrant Shares held by Warrant Holders who elected to be included in the registration statement under the preceding paragraph, then not less than a majority of the Warrant Holders of those Warrant Shares excluded due to the underwriter's objection may demand that the Company effect a registration on Form S-3 to include the previously excluded Warrant Shares. The Company will use commercially reasonable efforts to effect as soon as practicable the registration under the Act of all such previously excluded Warrant Shares. This right to demand registration on Form S-3 is effective only if the Company is eligible to use Form S-3.

c. The Company's contractual obligation to include the Warrant Shares on behalf of the Warrant Holder in a registration statement filed on behalf of the Company shall be subject to the reasonable cooperation of the Warrant Holder with the Company. The Warrant Shares held by the Warrant Holder may be excluded from a registration statement at the election of the Company in the event all information essential for the Company and its counsel to prepare the registration statement is not furnished by the Warrant Holder, after the Warrant Holder, upon written request of the Company or its counsel, has been given a reasonable amount of time (not less than ten business days from the date such request has been sent to the Warrant Holder) to transmit the requested information to the Company and/or its counsel.

4.2 A Participating Warrant Holder will provide the Company such information relating to the Participating Warrant Holder and its plan of distribution as may be necessary for the completion of the registration statement.

4.3 In the event of any registration under the Act of any of the Warrant Shares pursuant to this Agreement, the Company will use its best efforts to obtain blue sky qualification of the Warrant

Shares in such states as the Company may agree upon reasonable request of the Participating Warrant Holder.

4.4 In the event of any registration under the Act of any of the Warrant Shares pursuant to this Agreement, the Participating Warrant Holder will be responsible for ensuring that the Warrant Shares are sold in strict compliance with the registration statement (including, without limitation, the plan of distribution to be included therein) and all other applicable federal and state securities laws and regulations.

4.5 In the event of any registration under the Act of any of the Warrant Shares pursuant to this Agreement, the Company will agree to indemnify and hold harmless each Participating Warrant Holder and each underwriter, and each other affiliate of a Participating Warrant Holder or such underwriter within the meaning of the Act against any losses, claims, damages or liabilities, joint or several, to which any Participating Warrant Holder or such underwriter or such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any such registration statement, any preliminary prospectus or final prospectus contained therein or any amendment thereof or supplement thereto, or any document incident to registration or qualification of the Warrant Shares covered thereby under state securities or blue sky laws, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein, or any violation by the Company of the Act or state securities or blue sky laws applicable to the Company and relating to any action or inaction required by the Company in connection with such registration or qualification under such state securities or blue sky laws; provided, however that the Company will not be liable in any such case to any indemnified person to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, said preliminary prospectus or said prospectus or said amendment or supplement, or any document incident to registration or qualification under state securities or blue sky laws, in reliance upon and in conformity with any information furnished in writing to the Company or its counsel by such indemnified person specifically for use in the preparation thereof or if such loss, claim, damage, liability or action arose out of the violation of any duty to which the Participating Warrant Holder may be subject, including the obligation to deliver a copy of any prospectus, supplement or amendment to a purchaser of the Warrant Shares and such prospectus, supplement or amendment was made available to the Participating Warrant Holder by the Company.

4.6 In the event of any registration of the Warrant Shares under the Act pursuant to this Agreement, each Participating Warrant Holder will agree to indemnify and hold harmless the Company and each affiliate and controlling person, as defined by the Act, of the Company, each officer or employee of the Company who signs the registration statement, each director of the Company, any agent of the Company and each underwriter, and any and all affiliates and controlling persons, as defined by the Act, of such persons against any and all such losses, claims, damages or liabilities as the Participating Warrant Holders and others are indemnified against by the Company and will reimburse the Company and each of the foregoing persons for any losses, claims, damages or liabilities (or actions in respect thereof) and for any legal or any

other expenses incurred by each such person, if the statement or omission in respect of which such loss, claim, damage or liability is asserted was made in reliance upon and in conformity with information furnished to the Company in writing by such Participating Warrant Holder or on its behalf specifically for use in connection with the preparation of such registration statement or prospectus.

Section 5. Adjustment of Exercise Price and Shares.

5.1 If the Company shall at any time subdivide its outstanding Common Stock by recapitalization, reclassification or split-up thereof, the number of Shares of Common Stock subject to this Warrant immediately prior to such subdivision shall be proportionately increased, and if the Company shall at any time combine the outstanding Common Stock by recapitalization, reclassification or combination thereof, the number of Shares of Common Stock subject to this Warrant immediately prior to such combination shall be proportionately decreased. Any corresponding adjustment to the Exercise Price shall become effective at the close of business on the record date for such subdivision or combination.

5.2 In the event of a dividend (other than in shares of Common Stock of the Company), the proposed dissolution or liquidation of the Company, or any corporate separation or division, including, but not limited to, a split-up, split-off or spin-off, or a merger or consolidation of the Company with another Company, or the sale of all or substantially all of the assets of the Company, the Board may provide that each Warrantholder will have the right to exercise this Warrant (at its then current Exercise Price) solely for the kind and amount of shares of stock and other securities, property, cash or any combination thereof receivable upon such dissolution, liquidation, corporate separation or division, or merger or consolidation by a holder of the number of shares of Common Stock for which this Warrant might have been exercised immediately prior to such dissolution, liquidation, corporate separation or division, or merger or consolidation; or, in the alternative, the Board may provide that this Warrant will terminate as of a date fixed by the Board; provided, however that not less than 30 days' written notice of the date so fixed must be given to the Warrantholder, who will have the right, during the period of 30 days preceding such termination, to exercise this Warrant as to all or any part of the shares of Common Stock covered by this Warrant.

5.3 The preceding paragraph will not apply to a merger or consolidation in which the Company is the surviving Company and shares of Common Stock are not converted into or exchanged for stock, securities of any other Company, cash or any other thing of value. Notwithstanding the preceding sentence, in case of any consolidation or merger of another Company into the Company in which the Company is the surviving Company and in which there is a reclassification or change (including a change to the right to receive cash or other property) of the shares of Common Stock (excluding a change in par value, or from no par value to par value, or any change as a result of a subdivision or combination, but including any change in such shares into two or more classes or series of shares), the Board may provide that the holder of this Warrant will have the right to exercise this Warrant solely for the kind and amount of shares of stock and other securities (including those of any new direct or indirect parent of the Company), property, cash or any combination thereof receivable upon such reclassification, change, consolidation or merger by the holder of the number of shares of Common Stock for which this Warrant might have been exercised.

5.4 In the event of a change in the Common Stock of the Company as presently constituted into the same number of shares with a different par value, the shares resulting from any such change will be deemed to be the Common Stock of the Company within the meaning of this agreement.

5.5 The Company agrees that without the Warrant Holder's consent or absent consent, without a reasonable adjustment to the Exercise Price of this Warrant, no shares of Common Stock, and no securities convertible into shares of Common Stock, will be issued at a price per share (or a conversion price, if applicable) less than the fair market value of the Company's Common Stock on the date of issuance; provided, however that this paragraph will not apply to: (i) options granted under the Company's 1998 Stock Option Plan; or (ii) securities issued in connection with any merger or acquisition.

5.6 To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments will be made in good faith by the Board.

5.7 Except as expressly provided in this Warrant, the Warrantholder will have no rights by reason of any subdivision or consolidation of shares of stock of any class, or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class, or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another Company; and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, will not affect, and no adjustment will be made with respect to, the number or price of shares of Common Stock subject to this Warrant. The grant of this Warrant will not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structures, or to merge or consolidate, or to dissolve, liquidate, or sell or transfer all or any part of its business or assets.

Section 6. Mutilated or Missing Warrant Certificates. In case any Warrant Certificate shall be mutilated, lost, stolen or destroyed, the Company shall, at the request of the holder of such Certificate, issue and deliver, in exchange and substitution for and upon cancellation of the mutilated Certificate, or in lieu of and substitution for the Certificate, lost, stolen or destroyed, a new Warrant Certificate of like tenor and representing an equivalent right or interest; but only upon receipt of evidence satisfactory to the Company of such loss, theft or destruction of such Warrant Certificate and indemnity, if requested, also satisfactory to the Company. An applicant for such a substitute Warrant Certificate shall also comply with such other reasonable regulations and pay such other reasonable charges as the Company may prescribe.

Section 7. Reservation of Shares of Common Stock. There has been reserved, and the Company shall at all times keep reserved so long as any of the Warrants remain outstanding, out of its authorized Common Stock a number of shares of Common Stock sufficient to provide for the exercise of the rights of purchase represented by the outstanding Warrants and the underlying securities.

Section 8. No Fractional Shares. The Company shall not be required to issue fractional shares or scrip representing fractional shares upon the exercise of the Warrants. As to any final

fraction of a Share which the Warrant Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the market price of a share of Common Stock on the business day preceding the day of exercise.

Section 9. Transfer and Exercise to Comply With the Securities Act of 1933.

9.1 Neither the Warrants nor the Warrant Shares may be sold, transferred or otherwise disposed of except to a person, who, in the opinion of counsel for the Company, is a person to whom such securities may legally be transferred pursuant to the provisions of this Agreement without registration, and without the delivery of a current prospectus, under the Act with respect thereto.

9.2 Unless the Company has on file with the Securities and Exchange Commission a current registration statement to permit the Company to issue registered shares upon exercise of the Warrants, the Warrants may not be exercised except in a transaction exempt from registration under the Act.

9.3 The Company shall cause the following legend to be set forth on each Warrant Certificate and certificates representing the Warrant Shares, unless counsel for the Company is of the opinion as to any such Certificates that such legend is unnecessary:

> The securities represented by this certificate may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement made under the Securities Act of 1933 (the "Act"), or pursuant to an exemption from registration under the Act the availability of which is to be established to the satisfaction of the Company.

Section 10. Notices. Any notice pursuant to this Agreement by the Company or by the Warrant Holders shall be in writing and shall be deemed to have been duly given if delivered or mailed certified mail, return receipt requested, (a) if to the Company, to Natural Gas Services Group, Inc., 2911 So. County Road 1260, Midland, TX 79706, attn: President; and (b) if to the Warrant Holder, to the address set forth above. Each party hereto may from time to time change the address to which notices to it are to be delivered or mailed hereunder by notice in accordance herewith to the other party.

Section 11. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Holders shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 12. Applicable Law. This Warrant Agreement and Certificate and any replacement Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Colorado and for all purposes shall be construed in accordance with the laws of said State.

Section 13. Benefits of This Agreement. Nothing in this Agreement shall be construed to give to any person or Company other than the Company and the Warrant Holders any legal or

equitable right, remedy or claim under this Agreement and this Agreement shall be for the sole and exclusive benefit of the Company and the Warrant Holders.

DATED: April 24, 2002 NATURAL GAS SERVICES GROUP, INC.

By:

Wayne Vinson, President

EXHIBIT A

PURCHASE FORM

DATED _______________, ____

THE UNDERSIGNED HEREBY IRREVOCABLY ELECTS TO EXERCISE THE WARRANT REPRESENTED BY THIS WARRANT CERTIFICATE TO THE EXTENT OF PURCHASING __________ SHARES OF NATURAL GAS SERVICES GROUP, INC. AND HEREBY MAKES PAYMENT OF $3.25 PER SHARE IN PAYMENT OF THE EXERCISE PRICE THEREOF.

INSTRUCTIONS FOR REGISTRATION OF STOCK

NAME:

- --

(PLEASE TYPE OR PRINT IN BLOCK LETTERS)

ADDRESS:

- --

SIGNATURE

DATED:
------------------,-------

- --

ASSIGNMENT FORM

FOR VALUE RECEIVED, __________________________, HEREBY SELLS, ASSIGNS AND TRANSFERS UNTO

NAME:

- --

(PLEASE TYPE OR PRINT IN BLOCK LETTERS)

ADDRESS:

- --

THE RIGHT TO PURCHASE SHARES OF NATURAL GAS SERVICES GROUP, INC. REPRESENTED BY THIS WARRANT CERTIFICATE TO THE EXTENT OF _________ SHARES AS TO WHICH SUCH RIGHT IS EXERCISABLE AND DOES HEREBY IRREVOCABLY CONSTITUTE AND APPOINT NATURAL GAS SERVICES GROUP, INC. TO TRANSFER THE SAME ON THE BOOKS OF THE COMPANY WITH FULL POWER OF SUBSTITUTION IN THE PREMISES.

SIGNATURE

DATED:
------------------,-------

NOTICE: THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS IT APPEARS UPON THE FACE OF THIS WARRANT CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

EXHIBIT B

WARRANT CONVERSION EXERCISE FORM

TO: NATURAL GAS SERVICES GROUP, INC.

Pursuant to Section 2.3 of the Warrant Certificate from Natural Gas Services Group, Inc. (the "Company") to the undersigned Holder, the Holder hereby irrevocably elects to convert Warrants with respect to Shares of the Company into ___________ Shares of the Company.

A conversion calculation is attached hereto as Exhibit B-1.

The undersigned requests that certificates for such Shares be issued as follows:

Name: ---

Address: ---

Deliver to: ---

and that a new Warrant Certificate for the balance remaining of the Warrants, if any, subject to the Warrant be registered in the name of, and delivered to, the undersigned at the address stated above.

Dated: --------------------------

[NAME OF WARRANT HOLDER]

EXHIBIT B-1

CALCULATION OF WARRANT CONVERSION

Shares to be Delivered by Company	=	Net Value / fmv
fmv	=	$____________
Net Value	=	aggregate fmv of Converted Shares - aggregate Exercise Price of Converted Shares
	=	$____________ - $____________
	=	$____________
Shares to be Delivered by Company	=	_____________
Fractional Shares	=	____________

Exhibit 21

Subsidiaries of Natural Gas Services Group, Inc.

- NGE Leasing, Inc.
- Rotary Gas Systems, Inc.
- Great Lakes Compression, Inc.
- Hy-Bon Rotary Compression, LLC

EXHIBIT 23.01

INDEPENDENT AUDITOR'S CONSENT

We consent to the use in the Registration Statement and Prospectus of Natural Gas Services Group, Inc. of our reports dated March 14, 2002 and July 31, 2001 accompanying the financial statements of Natural Gas Services Group, Inc. and the statements of revenue and direct operating expenses of assets acquired by Great Lakes Compression, Inc. respectively, contained in such Registration Statement, and to the use of our name and the statements with respect to us, as appearing under the heading "Experts" in the Prospectus.

HEIN & ASSOCIATES LLP

Dallas Texas
May 14, 2002