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

FORM 8-K

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

Date of Report (Date of earliest event reported): June 14, 2005

NATURAL GAS SERVICES GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Colorado
(State or other jurisdiction
of Incorporation or organization)

1-31398
(Commission File
Number)

75-2811855
(IRS Employer
Identification No.)

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

79706
(Zip Code)

432-563-3974
(Registrant's telephone number, including area code)

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On June 14, 2005, The Board of Directors of Natural Gas Services Group, Inc. appointed James R. Hazlett to the office of Vice President-Technical Sales. Mr. Hazlett was an officer and employee of Screw Compression Systems, Inc., or "SCS", at the time we acquired all of the outstanding stock of SCS. We acquired SCS by purchasing all of the stock of SCS owned by Mr. Hazlett, Paul D. Hensley and Tony Vohjesus.

Upon completion of our acquisition of SCS on January 3, 2005, Mr. Hazlett, one of the former stockholders of SCS, entered into a three year employment agreement with SCS to continue in his position as a Vice President of SCS. The employment agreement provides for an annual base salary in the amount of \$105,000 and participation by Mr. Hazlett in our employee benefit plans. The agreement contains provisions restricting the use of confidential information; requiring that business opportunities and intellectual property developed by Mr. Hazlett become the property of SCS; and prohibiting Mr. Hazlett from competing with us within our area consisting of Tulsa County, Oklahoma and the adjacent counties. The agreement may be terminated by us for "cause", within the meaning of the agreement, and automatically terminates upon the occurrence of any "fundamental change" with respect to SCS or Natural Gas Services Group. The agreement also automatically terminates upon the death, voluntary resignation or retirement of Mr. Hazlett or the inability of Mr. Hazlett to perform his duties for a consecutive period of 120 days or a non-consecutive period of 180 days during any twelve month period.

Under terms of the Stock Purchase Agreement between us, Mr. Hazlett and the other former stockholders of SCS, Mr. Hazlett received \$800,000 in cash; 60,976 shares of Natural Gas Services Group common stock; and a promissory note in the principal amount of \$300,000, bearing interest at the rate of 4.00% per annum, maturing January 3, 2008 and secured by a letter of credit in the aggregate face amount of \$200,000. The promissory note is payable in three equal annual installments, with the first installments being due and payable on January 3, 2006. Subject to the consent of the holder of each respective note, principal payments may be made by us in shares of our common stock valued at the average daily closing prices of the common stock on the American Stock Exchange for the twenty consecutive trading days commencing thirty trading days before the due date of the principal payment, or by combination of cash and shares of common stock.

Under the terms of a Stockholders' Agreement entered into as required by the Stock Purchase Agreement, for a period of two years following the closing, Mr. Hazlett has the right, subject to certain limitations, to include or "piggyback" the shares of common stock he received in the transaction in any registration statement we file with the Securities and Exchange Commission. The Stockholders' Agreement also provides that Mr. Hazlett will not for a period of three years acquire or agree, offer, seek or propose to acquire beneficial ownership of any assets or businesses or any additional securities issued by us, or any rights or options to acquire such ownership; contest any election of directors by the stockholders of Natural Gas Services Group; or induce or attempt to induce any other person to initiate any stockholder proposal or tender offer for any of our voting securities; or enter into any discussions,

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negotiations, arrangements or understandings with any third party with respect to any of the foregoing.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Employment Agreement, dated as of January 3, 2005, between Screw Compression Systems, Inc. and Jim Hazlett.
10.2	Stock Purchase Agreement, dated October 18, 2004, by and among the Registrant, Screw Compression Systems, Inc., Paul D. Hensley, Jim Hazlett and Tony Vohjesus (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated October 18, 2004 and filed with the Securities and Exchange Commission on October 21, 2004).
10.3	Promissory Note, dated January 3, 2005, in the principal amount of \$300,000 made by the Registrant payable to the order of Jim Hazlett.
10.4	Stockholders' Agreement, dated January 3, 2005, among the Registrant, Jim Hazlett, Paul D. Hensley and Tony Vohjesus.

SIGNATURES

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

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Stephen C. Taylor
Stephen C. Taylor, President

Dated: November 9, 2005

EXHIBIT INDEX

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), dated as of January 3, 2005, is between Screw Compression Systems, Inc., a Texas corporation (the "Company"), and Jim Hazlett, an individual residing in Midland, Texas (the "Employee").

WHEREAS, simultaneously with the execution of this Agreement, all of the issued and outstanding shares of capital stock of the Company have been acquired by Natural Gas Services Group, Inc., a Colorado corporation (the "Parent"), pursuant to the terms of that certain Stock Purchase Agreement (the "Purchase Agreement"), dated as of October 18, 2004, as amended by Amendment No. 1 to Stock Purchase Agreement, dated as of December 6, 2004, among the Company, Paul D. Hensley, Tony Vohjesus, Employee and Parent;

WHEREAS, it is a condition to consummation of the transactions contemplated by the Purchase Agreement that Employee and the Company enter into an employment agreement on the terms and conditions hereinafter set forth;

WHEREAS, the Company desires to employ the Employee, and the Employee desires to be employed by the Company, upon the terms and conditions hereinafter set forth;

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

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

2. Term. The employment of the Employee shall be for a period (referred to herein as the "Employment Term") commencing on the date of this Agreement and ending on the earlier of (i) January 3, 2008; (ii) the effective date of any "Fundamental Change" with respect to the Company or the Parent; or (iii) the date of termination of Employee's employment pursuant to Section 5 hereof.

For purposes hereof, a "Fundamental Change" shall occur with respect to the Company or the Parent on the effective date of any dissolution, merger, consolidation, sale of all or substantially all of the Company's or the Parent's assets, recapitalization or any other type of transaction which results in at least 50% of the Company's or the Parent's common stock being changed into, or exchanged for, different securities of the Company or the Parent, as applicable, or other securities or interests in other persons or entities.

3. Position and Duties.

(a) Position. During the Employment Term, the Employee shall serve as Vice President of the Company. In such capacity, the Employee shall have such duties, functions,

responsibilities, and authority customarily appertaining to the position of vice president of a corporation; subject, however, to applicable restrictions imposed by the bylaws of the Company and to the directives of the Board of Directors of the Parent or the Compensation Committee of the Board of the Parent.

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

- (i) serving as a director or a member of a committee of any organization, if serving in such capacity does not involve any conflict with the business of the Related Parties and such organization is not in competition in any manner whatsoever with the business of the Related Parties;
- (ii) fulfilling speaking engagements;
- (iii) engaging in charitable and community activities; and
- (iv) managing his personal investments so long as such investment activities do not constitute an actual or potential conflict of interest with the business of the Related Parties and comply with the provisions in Section 6.

4. Compensation and Related Matters.

(a) Base Salary. The Company shall pay to Employee a base salary at the rate of not less than \$105,000 per annum. This base salary may be reviewed periodically and increases in such base salary may be granted at the sole discretion of the Board of Directors of the Parent or the Compensation Committee of the Board of Directors of the Parent.

(b) Bonuses. In addition to base salary, Employee shall be entitled to receive during the Employment Term such bonuses or other discretionary compensation payments, if any, as the Board of Directors of the Parent or the Compensation Committee of the Board of Directors of the Parent may determine to award him from time to time which are comparable to the bonus formula for executive officers implemented by the Parent during 2004 (e.g., a bonus pool equal to ten percent (10%) of EBITDA shared by all executive officer participants based on the respective percentage of base salary of each executive officer participant). Any such bonuses or other discretionary compensation payments shall be payable to the Employee in the manner specified by the Board of Directors of the Parent or its Compensation Committee at the time any such bonus or other payment is awarded.

(c) Benefits. Employee shall, during the Employment Term, be eligible to participate in such insurance, medical and other employee benefit plans, including, but not limited to, retirement (401k) plans, of the Parent which may be in effect, from time to time, to the extent such plans are generally available to executive officers of the Parent; provided, however, subject to temporarily retaining one or more of the Company benefit plans to more efficiently transition the Company's employees to Parent benefit plans, Parent shall provide, or shall cause the Company to provide, insurance, medical, and retirement benefits to Employee after the date of this Agreement which are comparable to the insurance, medical and retirement benefits provided by the Company to Employee on the date hereof.

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

(e) Vacations. Employee shall be entitled to take such vacations as he may desire, with pay, provided that such vacations do not interfere with the performance of his duties and services hereunder.

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

(g) Parent shall provide, or cause the Company to provide, Employee with an automobile comparable to the automobile provided by the Company to Employee on the date hereof.

5. Termination of Employment.

(a) Employee's employment hereunder:

(i) shall automatically terminate upon the occurrence of any of the following: (A) the mental or physical incapacity or inability of Employee to perform his duties for a consecutive period of one hundred twenty (120) days or a non-consecutive period of one hundred eighty (180) days during any twelve month period; (B) the death of the Employee; or (C) the voluntary resignation or retirement of Employee; and

(ii) may be terminated by the Company, at any time, for "cause", which shall mean by reason of any of the following: (A) Employee's conviction of, or plea of nolo contendere to, any felony or to any crime or offense causing substantial harm to any of the Related Parties (whether or not for personal gain) or involving acts of theft, fraud, embezzlement, moral turpitude or similar conduct; (B) malfeasance in the conduct of Employee's duties, including, but not limited to, (1) willful and intentional misuse or

diversion of any of the Related Parties' funds, (2) embezzlement, or (3) fraudulent or willful and material misrepresentations or concealments on any written reports submitted to any of the Related Parties, (C) material failure to perform the duties of Employee's employment or material failure to follow or comply with the reasonable and lawful written directives of the Board of Directors of the Company, *provided, however*, that Employee shall have been informed, in writing, of such material failure and given a period of not more than 60 days to remedy same; or (D) a material breach by Employee of the provisions of this Agreement (including, without limitation, any breach of Section 3(b) of this Agreement).

(b) Upon any termination of Employee's employment pursuant to this Section 5, all obligations of the Company under this Agreement shall terminate.

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

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

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

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

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

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

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

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

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

(i) engage or participate in any manner, whether directly or indirectly through any family member or as an employee, employer, consultant, agent, principal, partner, more than one percent shareholder, officer, director, licensor, lender, lessor or in any other individual or representative capacity, in any business activity that relates to (A) the business of manufacturing, fabricating, selling, leasing and maintaining of natural gas

compressors, (B) the design and manufacture of natural gas flare systems, components and ignition systems, (C) installing and servicing flare stacks and related ignition and control devices or (D) in any other business or activity related to the natural gas compressor industry that is in competition in any manner whatsoever with the business of any of the Related Parties within the geographic area comprised of Tulsa County, Oklahoma and all counties adjacent to Tulsa County, Oklahoma; provided that, this shall not preclude Employee from:

(A) making investments in securities of oil and gas companies and natural gas compressor companies which are registered on a national stock exchange, if the aggregate amount owned by Employee and all family members and affiliates does not exceed one percent of such company's outstanding securities; or

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

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

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

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

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

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

(i) The representations and covenants contained in this Section 6 on the part of the Employee will be construed as ancillary to and independent of any other provision of this Agreement, and the existence of any claim or cause of action of the Employee against the Company or any of the other Related Parties or any officer, director or shareholder of the Company or any of the other Related Parties, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants of the Employee contained in this Section 6. In addition, the provisions of this Section 6 shall continue to be binding upon the Employee in accordance with their terms, notwithstanding the termination of the Employee's employment hereunder for any reason.

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

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

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

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

(a) If to Employee:

Jim Hazlett
10601 E. County Road 104
Midland, Texas 79706

(b) If to the Company:

Screw Compression Systems, Inc.
5725 Bird Creek Avenue
Catoosa, Oklahoma 74015
with a copy to:

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

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

10. Complete Agreement. This Agreement contains the entire understanding of the parties with respect to the employment of Employee and supersedes all prior arrangements or understandings with respect thereto and all oral or written employment agreements or arrangements between the Company (and any of its subsidiaries) and Employee. This Agreement may not be altered or amended except by a writing, duly executed by the party against whom such alteration or amendment is sought to be enforced.

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

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

[Remainder of page left blank intentionally]

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

COMPANY:

SCREW COMPRESSION SYSTEMS, INC.

By: /s/ Paul D. Hensley
Paul D. Hensley, President

EMPLOYEE:

/s/ Jim Hazlett
Jim Hazlett

PROMISSORY NOTE

\$300,000.00

Midland, Texas

January 3, 2005

FOR VALUE RECEIVED, in the manner, on the dates and in the amounts herein stipulated, Natural Gas Services Group, Inc. (the "Maker"), a Colorado corporation with principal offices at 2911 S. County Road 1260, Midland, Texas 79706, promises to pay to the order of Jim Hazlett, an individual residing at 10601 E. County Road 104, Midland, Texas 79706 ("Payee"), at his address in the City of Midland, Midland County, Texas, in lawful money of the United States of America, the sum of Three Hundred Thousand and No/100 Dollars (\$300,000.00), together with interest on the outstanding principal balance hereof (calculated on the basis of actual days elapsed in a year consisting of 365 days) from date until maturity at a rate equal to four percent (4.00%) per annum.

Principal on this Promissory Note (this "Note") shall be due and payable in three equal annual installments as follows:

- (1) \$100,000.00 shall be due and payable on January 3, 2006; \$100,000.00 shall be due and payable on January 3, 2007; and
- (2) one final installment of all remaining unpaid principal shall be due and payable in full on January 3, 2008.

Accrued and unpaid interest on the unpaid principal balance of this Note shall be due and payable on the same dates as, but in addition to, the installments of principal.

Subject to the prior written consent of Payee, Maker may, but shall not be obligated to, make principal payments on this Note:

- (1) in shares (only whole shares) of Buyer Common Stock valued at the Cash Equivalent Amount Per Share for the purposes of determining the number of shares of Buyer Common Stock to be issued; or
- (2) by combination of cash and such shares.

"Cash Equivalent Amount Per Share" means the average of the daily closing prices of Buyer Common Stock on the American Stock Exchange for the twenty consecutive trading days commencing thirty trading days before the due date of any principal payment.

All past due principal on this Note shall bear interest at the rate of ten percent (10%) per annum until such sums have been paid; provided, however, that in no event shall interest on this Note ever be charged or paid at a rate greater than the maximum nonusurious rate permitted by applicable federal or Texas law from time to time in effect, whichever shall permit the higher lawful rate (the "Highest Lawful Rate"). Interest shall be computed on the basis of the actual

number of days elapsed in a year composed of 365 or 366 days, as the case may be. At all such times, if any, as Chapter One (“Chapter One”) of the Texas Credit Code shall establish the Highest Lawful Rate, the Highest Lawful Rate shall be the “indicated rate ceiling” (as defined in Chapter One) from time to time in effect.

If, for any reason whatever, the interest paid or received on this note shall exceed the Highest Lawful Rate, the owner or holder of this note shall refund to the payor or, at the option of such owner or holder, credit against the principal of this note such portion of said interest as shall be necessary to cause the interest actually paid and retained on this note to equal the Highest Lawful Rate. All sums paid or agreed to be paid to the holder or holders hereof for the use, forbearance or detention of the indebtedness evidenced hereby shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of this note.

Maker may prepay this Note in whole or in part at any time and from time to time without the payment of any premium or fee. All prepayments hereon shall be applied to the installments of principal in inverse order of their maturities.

This Note is one of the Promissory Notes referred to in the Stock Purchase Agreement, dated of even date herewith, by and among Screw Compression Systems, Inc., a Texas corporation, Paul D. Hensley, Tony Vohjesus, Payee and Maker (the “Agreement”), and is subject to the terms and conditions of such Agreement. Reference is made to the Agreement for a statement of the rights, remedies, powers, privileges, benefits, duties and obligations of Maker and Payee under the Agreement. Capitalized terms used herein which are defined in the Agreement shall have such defined meanings unless otherwise defined herein.

Payment of this Note is secured by that certain Irrevocable Standby Letter of Credit, dated January 3, 2005, in the face amount of Two Hundred Thousand and No/100 Dollars (\$200,000.00), issued by Western National Bank, Midland, Texas, naming Payee as beneficiary. Reference is made to the Letter of Credit for a statement of the nature and extent of the security and the rights and obligations of the Maker and Payee thereunder.

Time is of the essence of this Note. If Maker fails to pay when due any installment of principal and such failure to pay continues for a period of five days after Maker’s receipt of written notice from Payee, the holder of this Note may, at such holder’s option, declare the entirety of the indebtedness evidenced hereby immediately due and payable and exercise any other available remedies, and failure to exercise any remedy shall not constitute a waiver at any other time.

If this Note or any installment or part hereof is not paid when due, whether at maturity or by acceleration, or if it is collected through a bankruptcy, probate or other court proceeding, whether before or after maturity, the undersigned agrees to pay all costs and expenses of collection, including, but not limited to, reasonable attorneys’ fees, incurred by the holder hereof.

Maker waives 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.

EXECUTED to be effective as of the date and year first written above.

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace C. Sparkman
Wallace C. Sparkman, President

Stockholders' Agreement

Natural Gas Services Group, Inc.
2911 South County Road 1260
Midland, Texas 79706

Gentlemen:

Natural Gas Services Group, Inc. ("NGSG"), a Colorado corporation, is issuing an aggregate of 609,756 shares of its common stock, par value \$.01 per share (the "Restricted Securities"), to Paul Hensley, Jim Hazlett and Tony Vohjesus (collectively, the "Sellers" and each individually, a "Seller") as partial consideration for NGSG's purchase (the "Purchase") of all of the issued and outstanding shares of capital stock of Screw Compression Systems, Inc., a Texas corporation, from Sellers pursuant to the Stock Purchase Agreement, dated as of October 18, 2004, 2004, as amended by Amendment No. 1 to Stock Purchase Agreement, dated as of December 6, 2004 (the "Purchase Agreement"). The undersigned understands that the issuance is being made pursuant to exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and pursuant to exemptions from the registration and other requirements of applicable state securities laws. In order to induce NGSG to consummate the Purchase, Sellers have executed and delivered this Stockholders' Agreement (this "Agreement") to NGSG.

1. Representations, Warranties and Covenants of Each Seller. Each Seller, severally and not jointly, hereby represents, warrants and covenants to NGSG as follows:

a. Such Seller is acquiring the Restricted Securities for his own account for investment purposes only, and not with a view to, or for resale in connection with, any distribution other than in compliance with the registration requirements under the Securities Act or the securities laws of any state or pursuant to an exemption therefrom.

b. Such Seller understands that (A) the Restricted Securities (1) have not been registered under the Securities Act or any state securities laws, (2) will be issued in reliance upon an exemption from the registration and prospectus delivery requirements of the Securities Act and state securities laws for an offer and sale of securities not involving a public offering which relate to private purchases and (3) may not be sold, transferred or otherwise disposed of without satisfaction of certain conditions, including registration under, or the availability of an exemption from registration under, the Securities Act and applicable state securities laws, and (B) such Seller must therefore bear the economic risk of such investment indefinitely unless a subsequent disposition thereof is registered under the Securities Act and applicable state securities laws or is exempt therefrom. Such Seller further understands that such exemptions depend upon, among other things, the nature of the investment intent of the undersigned expressed herein.

c. Such Seller has been furnished by NGSG all information (or provided access to all information) regarding the business and financial condition of NGSG, the attributes of the Restricted Securities and the merits and risks of an investment in the Restricted Securities which such Seller has requested to evaluate an investment in the Restricted Securities. Specifically, the undersigned acknowledges that such Seller has had an opportunity to review NGSG 's Annual Report on Form 10-KSB for the year ended December 31, 2003 and Quarterly Reports on Form 10-QSB for the fiscal quarters ended March 31, 2004, June 30, 2004 and September 30, 2004 and the other SEC Documents (as defined in the Purchase Agreement).

d. Such Seller is an "accredited investor" as defined in Rule 501 of Regulation D promulgated under the Securities Act, and he, or those persons retained by him, has knowledge, skill and experience in financial, business and investment matters relating to an investment of the same nature as the Restricted Securities and is capable of evaluating the merits and risks of such investment and protecting himself in connection with the Purchase and an investment in the Restricted Securities. Such Seller has, to the extent deemed necessary by him retained, at his own expense, and relied upon, appropriate professional advice regarding the investment, tax and legal merits and consequences of an investment in the Restricted Securities. Such Seller has examined the SEC Documents, or caused the same to be examined, by his representatives to the extent he deems necessary or appropriate. Such Seller has not received any legal, business, tax or other advice from NGSG, its counsel or other representatives.

e. Such Seller acknowledges that (i) it has been called to his attention that his investment in the Restricted Securities involves risk and (ii) he understands that the Restricted Securities to be issued in the Purchase will be an illiquid investment, subject to any future registration pursuant to this Agreement.

f. No person or entity, other than NGSG, has been authorized to give any information or to make any representations on behalf of NGSG in connection with the Purchase, and, if given or made, such information or representations have not been relied upon by such Seller as having been made or authorized by NGSG. The only representations, warranties and information made by NGSG in connection with the Purchase are those contained in the Purchase Agreement and the SEC Documents.

g. NGSG has provided such Seller the opportunity to ask questions of, and receive answers from, NGSG concerning the Purchase and the Restricted Securities and to obtain any appropriate additional information necessary to the investment decision being made by him in connection with the Purchase and the Restricted Securities.

h. Such Seller acknowledges that he has been advised that:

IN MAKING AN INVESTMENT DECISION REGARDING THE RESTRICTED SECURITIES, HE MUST RELY ON HIS OWN EXAMINATION OF NGSG AND THE TERMS OF THE PURCHASE, INCLUDING THE MERITS AND RISKS INVOLVED.

THE RESTRICTED SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY.

THE RESTRICTED SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE, AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE SECURITIES ARE ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFERABILITY SET FORTH IN THIS AGREEMENT.

The foregoing representations and warranties and undertakings are made by and on behalf of each Seller with the intent that they be relied upon by NGSG in determining each Seller's suitability as an investor. Each Seller hereby agrees that such representations and warranties shall survive his purchase of the Restricted Securities.

2. Standstill. Unless waived in writing by NGSG from time to time, during the period commencing on the Closing Date and ending on the third anniversary thereof, neither Sellers nor any of their respective affiliates (as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) will:

(a) acquire or agree, offer, seek or propose to acquire (or request permission to do so), ownership (including, but not limited to, beneficial ownership as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of any assets or businesses or any additional securities issued by NGSG, or any rights or options to acquire such ownership (including from a third party), or

(b) contest any election of directors by the stockholders of NGSG, or

(c) otherwise act, alone or in concert with others, to induce or attempt to induce any other person to initiate any stockholder proposal or a tender offer for any voting securities of NGSG, or

(d) enter into any discussions, negotiations, arrangements or understandings with any third party with respect to any of the foregoing.

3. Restrictions on Transferability; Registration Rights.

The Restricted Securities shall not be transferable except upon the conditions specified in this Section 3; provided that, notwithstanding any other provision of this Section 3, each Seller shall have the right to transfer any Restricted Securities upon the prior written consent of NGSG. Each transferee shall be subject to the same transfer restrictions imposed on Sellers by this Agreement. All rights and obligations of Sellers set forth in this Section 3 will inure to the benefit of and be binding upon any transferee of the Restricted Securities.

3.1 Restrictive Legend. Unless and until otherwise permitted by this Section 3, each certificate for Restricted Securities issued under the Purchase Agreement, and each certificate for any Restricted Securities issued to any subsequent permitted transferee of any such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

“The shares evidenced by this certificate have not been registered under the Securities Act of 1933, as amended, and may be reoffered and sold only if registered pursuant to the provisions of said Securities Act or if an exemption from registration is available.”

3.2 Notice of Proposed Transfers. Prior to any transfer or attempted transfer of any Restricted Securities (other than pursuant to Rule 144 under the Securities Act or registration of the Restricted Securities under the Securities Act), the Seller of such Restricted Securities shall give written notice to NGSG of such Seller’s intention to effect such transfer. Each such notice (i) shall describe the manner and circumstances of the proposed transfer in sufficient detail, and shall contain an undertaking by the Seller giving such notice to furnish such other information as may be required, to enable counsel to render the opinions referred to below, and (ii) shall designate the counsel for the Seller giving such notice. Such Seller shall obtain the services of counsel described below at his own expense. The Seller giving such notice shall submit a copy thereof to the counsel designated in such notice. If in the opinion of such counsel, which is reasonably satisfactory to NGSG, the proposed transfer of such Restricted Securities may be effected without registration of such Restricted Securities under the Securities Act, NGSG shall, within ten business days after delivery of such opinion to NGSG, so notify the Seller of such Restricted Securities and such Seller shall thereupon be entitled to transfer such Restricted Securities in accordance with the terms of the notice delivered by such Seller to NGSG. Each certificate evidencing the Restricted Securities thus to be transferred (and each certificate evidencing any untransferred balance of the Restricted Securities) shall bear the restrictive legend set forth in Section 3.1.

3.3 Piggy-Back Registration Rights.

(a) Registration Initiated by NGSG. If NGSG shall determine to register any shares of common stock of NGSG (other than a registration relating to stock options or employee benefit plans, any dividend reinvestment plan, or the acquisition or purchase by or combination by merger or otherwise of NGSG of or with another company or business entity or partnership), whether or not for sale for its own account, NGSG will:

(i) promptly give to Sellers written notice thereof (which shall include (to the extent known) a list of the jurisdictions in which NGSG intends to attempt to qualify such securities under the applicable blue sky or other state securities laws); and

(ii) include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, all the Restricted Securities specified in a written request or requests, made within 20 days after receipt of such written notice from NGSG, by Sellers, except as set forth in Section 3.3(b) below.

(b) Underwriting. If the registration of which NGSG gives notice to Sellers is for a registered public offering involving an underwriting, NGSG shall so advise Sellers as a part of the written notice given pursuant to Section 3.3(a)(i). In such event, the right of each Seller to registration pursuant to this Section 3.3 shall be conditioned upon each such Seller's participation in such underwriting and the inclusion of each such Seller's Restricted Securities in the underwriting to the extent provided herein. A Seller proposing to distribute shares of his Restricted Securities through such underwriting (together with NGSG and the other holders (if any) distributing their securities through such underwriting) shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by NGSG. Notwithstanding any other provision of this Section 3.3, if the lead managing underwriter determines, in good faith, that marketing factors require a limitation of the number of shares to be underwritten, the underwriter may limit the number of shares of Restricted Securities to be included in the registration and underwriting to the extent such underwriter deems necessary. NGSG shall so advise Sellers, and the number of shares of Restricted Securities that may be included in the registration and underwriting shall be reduced to the number which the underwriter is willing to include in the registration. If a Seller disapproves of the terms of any such underwriting, such Seller may elect to withdraw therefrom by written notice to NGSG and the underwriter.

(c) Expenses of Registration by the Company. NGSG shall bear all expenses incurred in connection with each registration, qualification or compliance pursuant to this Section 3.3, including, without limitation, all registration, filing and qualification fees, printing expenses, audit fees, fees and disbursements of counsel for NGSG and counsel for the underwriters, if any (unless any such underwriter pays such counsel fees) and reasonable fees and disbursements of one special counsel for Sellers (but excluding underwriter's commissions, fees and expenses allocable to the Restricted Securities of Sellers and fees of independent accountants, if any, for Sellers, which commissions, fees and expenses and fees of accountants shall be borne pro rata (by share) by Sellers and any other offeror employing such accountants in such requested registration).

(d) Limitations on Registration. NGSG's obligation to effect a registration under Section 3.3(a) shall expire two years from the date of consummation of the Purchase. Notwithstanding any provision to the contrary in this Section 3.3, NGSG shall not be obligated to take any action to effect any such registration, qualification or compliance pursuant to Section 3.3 on more than two occasions; provided, however, only registrations which actually include all of the Restricted Securities of Sellers requested to be included shall be counted for this purpose.

(e) Assignability and Assumption. The registration rights granted to Sellers in this Section 3.3 may be assigned in whole or in part by the holder thereof in connection with any transfer of Restricted Securities provided that (i) the assignor provides NGSG with written notice of such assignment, and (ii) the assignee of such rights agrees in writing to be bound by the terms and conditions of this Section 3. In the event of a partial assignment, the holders of Restricted Securities shall possess the rights granted in this Section 3.3 pro rata in accordance with the number of shares of Restricted Securities beneficially owned by each of them and each such holder shall be entitled to receive a copy of all notices provided for in this Agreement and to exercise such part of the rights so granted.

3.4 Registration Procedures. In the case of each registration, qualification or compliance effected by NGSG pursuant to this Agreement pursuant to which Restricted Securities of Sellers are included therein, NGSG will keep Sellers advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. At its expense, NGSG will:

- (a) keep such registration, qualification or compliance effective for a period of at least 120 days or until Sellers have completed the distribution described in the registration statement relating thereto, whichever first occurs;
- (b) furnish such number of prospectuses and other documents incident thereto as Sellers from time to time may reasonably request;
- (c) list such Restricted Securities on each securities exchange (if any) on which the common stock of NGSG is listed; and
- (d) provide to Sellers and their special counsel a reasonable opportunity to review in advance the registration statement and all amendments thereto.

3.5 Indemnification.

(a) NGSG shall, if Restricted Securities held by Sellers or any other holder of Restricted Securities are included in the securities as to which such registration, qualification or compliance is being effected, indemnify Sellers and each other holder of Restricted Securities, each of their officers and directors, and each person controlling any of Sellers or other holder of Restricted Securities, with respect to each registration, qualification or compliance which has been effected pursuant to Section 3.3, and each underwriter, if any, and each person who controls any underwriter, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements not misleading, and will reimburse Sellers and each other holder of Restricted Securities, each of their officers and directors, and each person controlling any of Sellers or other holder of Restricted Securities, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action; provided that NGSG will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission based upon written information furnished to NGSG by Sellers or other holder of Restricted Securities or underwriter specifically for use therein. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such party and shall survive the subsequent transfer of shares of common stock of NGSG by the seller thereof and the transfer of any shares of common stock of NGSG which were the subject of such registration, qualification or listing.

(b) Each of the Sellers and each other holder of Restricted Securities, severally and not jointly, will, if Restricted Securities held by such Seller or other holder of Restricted Securities are included in the securities as to which such registration, qualification or compliance is being effected, indemnify NGSG, each of its directors and officers, each legal counsel and independent accountants of NGSG, each underwriter, if any, of NGSG's securities covered by such registration statement, each person who controls NGSG or such underwriter within the meaning of the Securities Act, and each other holder of common stock of NGSG registering securities of NGSG in such registration, each of its officers and directors and each person controlling such holder, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse NGSG, such holders, such directors, officers, persons, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to NGSG by such Seller or other holder of Restricted Securities specifically for use therein; provided; however, that (i) the obligations of each Seller and each other holder of Restricted Securities hereunder shall be limited to an amount equal to the proceeds to such Seller or each other holder of Restricted Securities sold as contemplated herein and (ii) the indemnity for untrue statements or omissions described above shall not apply if Sellers or other holder of Restricted Securities providing such written information provide NGSG with such additional written information prior to the effectiveness of the registration as is required to make the previously supplied written information true and complete, together with a description in reasonable detail of the information previously supplied which was untrue or incomplete.

(c) Each person entitled to indemnification under this Section 3.5 (the "Indemnified Person") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Person has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Person (whose approval shall not unreasonably be withheld), and the Indemnified Person may participate in such defense at such person's expense, and provided further that the failure of any Indemnified Person to give notice as provided herein shall not relieve the Indemnifying Party of any obligations it may have otherwise than on account of this Section 3.5. After notice from the Indemnifying Party to the Indemnified Person of its election to assume the defense of such claim or litigation, the Indemnifying Party will not be liable to such Indemnified Person for any legal or other expenses subsequently incurred by such Indemnified Person in connection with the defense thereof other than reasonable costs of investigation, unless the Indemnifying Party abandons the defense of such claim or litigation. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Person, consent to entry of any judgment or enter into any settlement which does not include as

an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Person of a release from all liability in respect to such claim or litigation.

(d) The indemnification required by this Section 3.5 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred.

3.6 Information by Sellers and Other Holders. Sellers or other holders of Restricted Securities included in any registration shall furnish to NGSG such information regarding Sellers or other holders and the distribution proposed by Sellers or other holders as NGSG may reasonably request in writing, and as shall be required in connection with any registration, qualification or compliance referred to in this Agreement.

4. Appointment and Nomination for Director. Paul D. Hensley shall be appointed to fill the vacancy existing on the Board of Directors at the date hereof, to hold office until the next annual stockholders' meeting at which directors are elected, and in connection with the next annual meeting of stockholders, NGSG will nominate Paul D. Hensley for election as a director to serve for a term the same as the class of directors then standing for election.

5. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, notwithstanding principles of conflicts of laws.

(b) This Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof, and may be amended only by a writing executed by all parties hereto.

(c) This Agreement and the representations and warranties contained herein shall be binding upon the heirs, executors, legal representatives, administrators, successors and permitted assigns of the undersigned.

IN WITNESS WHEREOF, Sellers have executed this Stockholders' Agreement this 3rd day of January, 2005.

/s/ Paul D. Hensley

Paul D. Hensley
Printed Name of Seller

Address of Seller:

Paul D. Hensley
3005 N. 15th Street
Broken Arrow, Oklahoma 74012

/s/ Tony Vohjesus

Tony Vohjesus
Printed Name of Seller

Address of Seller:

Tony Vohjesus
5863 E. Hunter Lane
Claremore, Oklahoma 74019

/s/ Jim Hazlett

Jim Hazlett
Printed Name of Seller

Address of Seller:

Jim Hazlett
10601 ECR 104
Midland, Texas 79706

Accepted and Agreed to this 3rd day of January, 2005:

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace C. Sparkman
Wallace C. Sparkman, President