

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

FORM 10-QSB

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2004

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-31398

NATURAL GAS SERVICES GROUP, INC.  
(Exact name of small business issuer as specified in its charter)

Colorado  
(State or other jurisdiction of  
incorporation or organization)

75-2811855  
(I.R.S. Employer  
Identification No.)

2911 SCR 1260  
Midland, Texas 79706  
(Address of principal executive offices)

(432) 563-3974  
(Issuer's Telephone number, including area code)

N/A

(Former name, former address and former fiscal year,  
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
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APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding at October 22, 2004
Common Stock, \$.01 par value	6,068,269

Transitional Small Business Disclosure Format (Check one): Yes No X  
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NATURAL GAS SERVICES GROUP, INC.

Part I - FINANCIAL INFORMATION

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Natural Gas Services Group, Inc.  
Consolidated Balance Sheet  
(unaudited)  
September 30, 2004

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 4,408,170
Accounts receivable - trade	1,187,402
Inventory	3,179,066
Prepaid expenses	178,694
	-----
Total current assets	8,953,332
Lease equipment, net	25,818,667
Other property, plant and equipment, net	3,140,203
Goodwill, net	2,589,655
Patents, net	93,328
Other assets	95,501
	-----
Total assets	\$40,690,686 =====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Current portion of long term debt and capital lease	\$ 3,145,056
Line of Credit	521,461
Accounts payable and accrued liabilities	1,647,514
Unearned Income	118,284
	-----
Total current liabilities	5,432,315
Long term debt and capital lease, less current portion	9,079,435
Subordinated notes, net	1,433,060
Deferred income tax payable	2,612,013
	-----
Total liabilities	18,556,823
SHAREHOLDERS' EQUITY	
Common stock	60,683
Paid in capital	16,249,850
Retained earnings	5,823,331
	-----
Total shareholders' equity	22,133,864
	-----
Total liabilities and shareholders' equity	\$40,690,686 =====

The accompanying notes are an integral part of the consolidated balance sheet

Natural Gas Services Group, Inc.  
Consolidated Income Statements  
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Revenue:				
Sales	\$ 702,679	\$ 1,372,248	\$ 2,444,899	\$ 2,877,358
Service and maintenance income	436,584	452,714	1,370,306	1,346,597
Leasing income	2,730,851	1,874,594	7,405,324	5,040,161
	-----	-----	-----	-----
	3,870,113	3,699,556	11,220,529	9,264,116
Cost of revenue:				
Cost of sales	451,334	1,008,771	1,699,003	2,155,568
Cost of service and maintenance	338,312	290,008	1,030,167	961,237
Cost of leasing	843,725	545,309	2,174,185	1,313,093
	-----	-----	-----	-----
	1,633,371	1,844,088	4,903,355	4,429,898
	-----	-----	-----	-----
Gross Margin	2,236,742	1,855,468	6,317,174	4,834,218
Operating Cost:				
Selling expense	226,935	159,870	629,545	484,421
General and administrative expense	425,299	395,918	1,368,524	1,186,922
Depreciation and amortization	641,817	455,563	1,750,851	1,235,118
	-----	-----	-----	-----
	1,294,050	1,011,351	3,748,919	2,906,461
	-----	-----	-----	-----
Operating income	942,692	844,117	2,568,255	1,927,757
Interest expense	(205,532)	(170,971)	(580,083)	(500,760)
Other income	2,306	1,253	1,496,329	2,040
	-----	-----	-----	-----
Income before income taxes	739,466	674,399	3,484,501	1,429,037
Provision for income tax	288,391	289,992	773,932	611,595
	-----	-----	-----	-----
Net income	451,074	384,407	2,710,568	817,442
Preferred dividends	0	30,530	53,277	92,550
	-----	-----	-----	-----
Net income available to common shareholders	\$ 451,074	\$ 353,877	\$ 2,657,291	\$ 724,892
	=====	=====	=====	=====
Earnings per share:				
Basic	\$0.08	\$0.07	\$0.49	\$0.15
Diluted	\$0.07	\$0.07	\$0.43	\$0.14
Weighted average Shares:				
Basic	5,626,280	4,995,713	5,428,146	4,910,062
Diluted	6,492,354	5,389,673	6,216,995	5,208,096

The accompanying notes are an integral part of the consolidated income statements.

Natural Gas Services Group, Inc.  
Consolidated Statements of Cash Flows  
(unaudited)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 2,710,568	\$ 817,442
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,750,851	1,235,120
Deferred taxes	769,507	602,202
Amortization of debt issuance costs	48,717	48,717
Gain on disposal of assets	6,911	10,547
Changes in operating assets and liabilities:		
Trade and other receivables	(370,807)	(938,817)
Inventory	(624,827)	(1,000,735)
Prepaid expenses and other	(71,663)	42,958
Accounts payable and accrued liabilities	575,362	708,971
Deferred income	(88,932)	174,710
Other	(16,745)	(60,436)
	-----	-----
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>4,688,942</b>	<b>1,640,679</b>
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(786,941)	(713,245)
Purchase of rental equipment	(8,150,073)	(5,187,208)
Acquisition of remaining interest in joint venture, net of cash acquired	--	242,753
Proceeds from sale of property and equipment	50,123	112,500
Decrease in lease receivable	--	210,512
Distribution from equity method investment	--	49,090
	-----	-----
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(8,886,891)</b>	<b>(5,285,598)</b>
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from bank loans	5,031,435	2,649,811
Net proceeds from line of credit	521,461	--
Repayments of long term debt	(1,821,111)	(1,583,951)
Repayments of line of credit	(300,000)	--
Proceeds from sale of common stock, exercised warrants and stock options	5,051,409	216,247
Dividends paid on preferred stock	(53,277)	(92,550)
	-----	-----
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>8,429,917</b>	<b>1,189,557</b>
	-----	-----
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>4,231,968</b>	<b>(2,455,362)</b>
CASH AT BEGINNING OF PERIOD	176,202	2,713,638
	-----	-----
<b>CASH AT END OF PERIOD</b>	<b>\$ 4,408,170</b>	<b>\$ 258,276</b>
	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	\$ 580,083	\$ 500,760

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The accompanying notes are an integral part of the consolidated statements of cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited financial statements present the consolidated results of our company taken from our books and records. In our opinion, such information includes all adjustments, consisting of only normal recurring adjustments, which are necessary to make our financial position at September 30, 2004 and the results of our operations for the nine month period ended September 30, 2004 and 2003 not misleading. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC) the accompanying financial statements do not include all disclosures normally required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2003 on file with the SEC. In our opinion, the consolidated financial statements are a fair presentation of the financial position, results of operations and cash flows for the periods presented.

The results of operations for the nine month period ended September 30, 2004 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2004.

(2) Stock-based Compensation

Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," encourages, but does not require, the adoption of a fair value-based method of accounting for employee stock-based compensation transactions. We have elected to apply the provisions of Accounting Principles Board Opinion No. 25 ("Opinion 25"), "Accounting for Stock Issued to Employees," and related interpretations, in accounting for our employee stock-based compensation plans. Under Opinion 25, compensation cost is measured as the excess, if any, of the quoted market price of our stock at the date of the grant above the amount an employee must pay to acquire the stock.

Had compensation costs for options granted to our employees been determined based on the fair value at the grant dates consistent with the method prescribed by SFAS No. 123, our net income and earnings per share would have been reduced to the pro forma amounts listed below:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
	-----	-----	-----	-----
Pro forma impact of fair value method				
Income applicable to common shares, as reported	\$ 451,074	\$ 353,877	\$ 2,657,291	724,892
Pro-forma stock-based compensation costs under the fair value method, net of related tax	(10,000)	(7,683)	(30,000)	(23,048)
	-----	-----	-----	-----
Pro-forma income applicable to common shares under the fair-value method	\$ 441,074	\$ 346,194	\$ 2,627,291	\$ 701,844
Earnings per common share				
Basic earnings per share reported	\$0.08	\$0.07	\$0.49	\$0.15
Diluted earnings per share reported	\$0.07	\$0.07	\$0.43	\$0.14
Pro-forma basic earnings per share under the fair value method	\$0.08	\$0.07	\$0.48	\$0.14
Pro-forma diluted earnings per share under the fair value method	\$0.07	\$0.06	\$0.42	\$0.13

Weighted average Black-Scholes fair value

assumptions:

Risk free rate	4.0%-5.2%
Expected life	5-10 yrs
Expected volatility	50.0%
Expected dividend yield	0.0%

(3) Merger

On January 1, 2004, we merged our subsidiaries, Rotary Gas Systems Inc, NGE Leasing Inc, and Great Lakes Compression Inc. with their parent Company, Natural Gas Services Group Inc. This had no effect on our consolidated financial position or results of operations, with the exception of a small impact on our state tax expenses.

(4) Preferred Stock Conversion

In accordance with the provisions of the Convertible Series A Preferred Stock of Natural Gas Services Group, Inc., on March 26, 2004 each share of Preferred Stock automatically converted to one share of Common Stock. The conversion occurred after the closing market price of the stock was equal to or higher than \$6.50 for 20 consecutive trading days. 315,154 Preferred shares were converted at that time. Dividends payable at the conversion date were approximately \$25,355.

(5) Common Stock Private Placement

On July 20, 2004, Natural Gas Services Group, Inc. and CBarney Investments, Ltd. entered into a Securities Purchase Agreement. Under this agreement, Natural Gas Services Group issued and sold 649,574 shares of its common stock to CBarney at \$7.69736 per share. The per share price was determined by multiplying (x) \$8.747, the average closing market price of the common stock on the American Stock Exchange for the twenty consecutive trading days ended July 15, 2004, times (y) eighty-eight percent. Natural Gas Services Group received aggregate gross proceeds of \$5,000,000 and net proceeds of \$4,950,000. We plan to use \$2,950,000 of the net proceeds we received from CBarney to reduce our existing bank debt, and to use the remainder of such proceeds to obtain one or more letters of credit in the aggregate face amount of \$2,000,000 that will secure the promissory notes to be issued by us in connection with the Screw Compression Systems, Inc. transaction described in note (8) below.

(6) Earnings per common share

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Basic earnings per share Numerator:				
Net income	\$ 451,074	\$ 384,407	\$ 2,710,568	817,442
Less: dividends on preferred shares	--	(30,530)	(53,277)	(92,550)
Net income available to common shareholders	\$ 451,074	\$ 353,877	\$ 2,657,291	\$ 724,892
Denominator -				
Weighted average common shares outstanding	5,626,280	4,995,713	5,428,146	4,910,062
Basic earnings per share	\$ 0.08	\$ 0.07	\$ 0.49	\$ 0.15
Diluted earnings per share Numerator:				
Net income	\$ 451,074	\$ 384,407	\$ 2,710,568	\$ 817,442
Less: dividends on preferred shares (1)	--	(30,530)	(53,277)	(92,550)
Net income available to common shareholders	\$ 451,074	\$ 353,877	\$ 2,657,291	\$ 724,892
Denominator :				
Weighted average common shares outstanding	5,626,280	4,995,713	5,428,146	4,910,062
Dilutive effect of common stock options and warrants	866,074	393,960	788,849	298,034
	6,492,354	5,389,673	6,216,995	5,208,096
Diluted earnings per share	\$ 0.07	\$ 0.07	\$ 0.43	\$ 0.14

(1) Preferred shares were anti-dilutive for the three and nine months ended September 30, 2004 and 2003

(7) Other Income

On March 15, 2004 the President and C.E.O. of our company, Mr. Wayne L. Vinson, passed away after a battle with cancer. The Company held 2 life insurance policies on him, 1 for \$1,000,000 and 1 for \$500,000, with the Company as the beneficiary. The proceeds of \$1,500,000 were recorded as other income.

(8) Agreement to Purchase SCS.

On October 18, 2004, Natural Gas Services Group, Inc. entered into a Stock Purchase Agreement with Screw Compression Systems, Inc., or "SCS", and the stockholders of SCS. Under this agreement, Natural Gas Services Group agreed to purchase all of the outstanding shares of capital stock of SCS.

SCS is a privately owned manufacturer of natural gas compressors, with its principal offices located in Tulsa, Oklahoma.



The stockholders of SCS will receive, in proportionate shares (based on their stock ownership of SCS), a total of \$15 million, consisting of:

- o \$8 million in cash;
- o promissory notes issued by Natural Gas Services in the aggregate principal amount of \$3 million bearing interest at the rate of four percent (4.00%) per annum, maturing three years from the date of closing and secured by a letter of credit in the face amount of \$2 million; and
- o 609,576 shares of Natural Gas Services common stock valued at \$4 million, based on the average of the daily closing prices of the common stock for the ninety consecutive trading days ended April 28, 2004. All of the shares, upon issuance, will be "restricted" securities within the meaning of Rule 144 under the Securities Act of 1933, as amended, and will bear a legend to that effect.

## Item 2. Management's Discussion and Analysis, or Plan of Operation

### Overview

Our company provides products and services to the oil and gas industry and is engaged in (1) the manufacture, service, 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.

### Critical Accounting Policies and New Accounting Pronouncements

See our December 31, 2003 Form 10-KSB on file with the SEC for a discussion of our critical accounting policies and new accounting pronouncements. There have been no substantive changes since that time.

### Liquidity and Capital Resources

We have funded our operations through public and private offerings of our common and preferred stock, subordinated debt and bank debt. Proceeds were primarily used to pay debt and to fund the manufacture and fabrication of additional units for our rental fleet of natural gas compressors.

At September 30, 2004, we had cash and cash equivalents of approximately \$4,408,000, working capital of \$3,521,000 and non-subordinated debt of \$12,225,000 of which approximately \$3,145,000 was classified as current. We had positive net cash flow from operating activities of approximately \$4,689,000 during the first nine months of 2004. This was primarily from net income of \$2,711,000 plus depreciation and amortization of \$1,751,000, an increase in deferred taxes of \$770,000, an increase in accounts payable and accrued liabilities of \$575,000, offset by an increase in accounts receivable-trade of \$371,000, a decrease in deferred income of \$17,000, and an increase in inventory of \$625,000.

On November 24, 2003 we completed a new \$10 million senior credit facility with a \$7 million initial borrowing base. The credit facility is a Multiple Advance Term Promissory Note arranged by Western National Bank, Midland, Texas. The interest rate is one percent over Wall Street prime rate. Funds have been drawn under this line as of September 30, 2004 totaling \$5,715,000. Substantially all of our equipment, inventory and accounts receivables have been pledged as collateral for our bank loans.

Our line of credit for \$750,000 with interest at 1% over prime for one year expired March 15, 2004 but was renewed on May 28, 2004. Funds have been drawn under the line of credit as of September 30, 2004 totaling \$521,461.

In accordance with the provisions of the Convertible Series A Preferred Stock of Natural Gas Services Group, Inc., on March 26, 2004 each share of Preferred Stock automatically converted to one share of Common Stock. The conversion occurred after the closing market price of the stock was equal to or higher than \$6.50 for 20 consecutive trading days. 315,154 Preferred shares were converted at that time. As a result the conversion we will have a reduction in expected dividend payments of approximately \$68,000 for the remainder of the year 2004.

On July 20, 2004, Natural Gas Services Group, Inc. and CBarney Investments, Ltd. entered into a Securities Purchase Agreement. Under this agreement, Natural Gas Services Group agreed to issue and sell 649,574 shares of its common stock to CBarney at \$7.69736 per share. The per share price was determined by multiplying (x) \$8.747, the average closing market price of the common stock on the American Stock Exchange for the twenty consecutive trading days ended July 15, 2004, times (y) eighty-eight percent. Natural Gas Services Group received net proceeds of \$4,950,000. We plan to use \$2,950,000 of the net proceeds we received from CBarney to reduce our existing bank debt, and to use the remainder of such proceeds to obtain one or more letters of credit in the aggregate face amount of \$2,000,000 that will service the promissory notes to be issued by us in connection with the Screw Compression Systems, Inc. transaction described in following paragraph.

On October 18, 2004, Natural Gas Services Group, Inc. entered into a Stock Purchase Agreement with Screw Compression Systems, Inc., or "SCS", and the stockholders of SCS. Under this agreement, Natural Gas Services Group agreed to purchase all of the outstanding shares of capital stock of SCS.

SCS is a privately owned manufacturer of natural gas compressors, with its principal offices located in Tulsa, Oklahoma.

The stockholders of SCS will receive, in proportionate shares (based on their stock ownership of SCS), a total of \$15 million, consisting of:

- o \$8 million in cash;
- o promissory notes issued by Natural Gas Services in the aggregate principal amount of \$3 million, bearing interest at the rate of four percent (4.00%) per annum, maturing three years from the date of closing and secured by a letter of credit in the face amount of \$2 million; and
- o 609,576 shares of Natural Gas Services common stock valued at \$4 million, based on the average of the daily closing prices of the common stock for the ninety consecutive trading days ended April 28, 2004. All of the shares, upon issuance, will be "restricted" securities within the meaning of Rule 144 under the Securities Act of 1933, as amended, and will bear a legend to that effect.

## Results of Operations

Nine Months Ended September 30, 2004, Compared to the Nine Months Ended September 30, 2003.

Total revenue increased from \$9,264,000 to \$11,221,000 or 21% for the nine months ended September 30, 2004 compared to the same period ended September 30, 2003. This was mainly the result of increased leasing income.

Sales revenue from outside sources decreased from \$2,877,000 to \$2,445,000, or 15% for the nine months ended September 30, 2004 compared to the same period ended September 30, 2003. Sales from outside sources included: (1) Compressor unit sales, (2) Flare sales, (3) Parts sales and (4) Compressor rebuilds. This decrease was mainly the result of a reduction in the sale of compressor units to outside third parties in the nine months ended September 30, 2004 compared to the same period in 2003. Because our products are custom-built, fluctuations in revenue from outside sources is not unusual and our focus has been more on building a rental base than on the sale of equipment.

Service and maintenance revenue increased from \$1,347,000 to \$1,370,000, or 2% for the nine months ended September 30, 2004 compared to the same period ended September 30, 2003.

Leasing revenue increased from \$5,040,000 to \$7,405,000, or 47% for the nine months ended September 30, 2004 compared to the same period ended September 30, 2003. This increase was the result of additional units added to our rental fleet and leased to third parties. The company ended the period with 533 compressor packages in its rental fleet, up from 399 units at December 31, 2003 and 354 units at September 30, 2003.

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Total Revenue Breakdown for Nine Months Ended September 30, 2004  
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Sales Revenue	22%
Service & Maintenance Revenue	12%
Leasing Revenue	66%

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The gross margin percentage increased from 52% for the nine months ended September 30, 2003, to 56% for the same period ended September 30, 2004. This improvement resulted mainly from the relative increase in leasing revenue as a percentage of the total revenue. Our rental fleet carries a gross margin averaging 70%, and an increase in rentals improves our total gross margin.

Selling, general and administrative expense increased from \$1,671,000 to \$1,998,000 or 20% for the nine months ended September 30, 2004, as compared to the same period ended September 30, 2003. This was mainly the result of the increase in commissions from additional leasing contracts on gas compressors to third parties, an increase in legal expenses related to an internal investigation concerning an employee matter that was settled in April 2004.

Depreciation and amortization expense increased 42 % from \$1,235,000 to \$1,751,000 for the nine months ended September 30, 2004, compared to the same period ended September 30, 2003. This increase was the result of 179 new gas compressor rental units being added to rental equipment from September 30, 2003 to September 30, 2004.

Other income and expense increased approximately \$1,494,000 for the nine months ended September 30, 2004, compared to the same period ended September 30, 2003. This increase was due mainly from the receipt of \$1,500,000 in life insurance payable in connection with the death of Mr. Wayne L. Vinson, our former President and C.E.O. His death on March 15, 2004 left the company as the beneficiary of two life insurance policies, one for \$1,000,000, and one for \$500,000.

Interest expense increased 16% for the nine months ended September 30, 2004 compared to the same period ended September 30, 2003, mainly due to the increased loan balances on vehicles and rental equipment.

Provision for income tax increased \$162,000 or 26%, primarily due to the increase in net taxable income. The income from the life insurance proceeds described above is not subject to federal income tax.

Three Months Ended September 30, 2004, Compared to the Three Months Ended September 30, 2003.

Total revenue increased from \$3,700,000 to \$3,870,000 or 5% for the three months ended September 30, 2004 compared to the same period ended September 30, 2003. This was mainly the result of increased leasing income and offset by a decrease in outside sales as outlined below.

Sales revenue from outside sources decreased from \$1,372,000 to \$703,000, or 49% for the three months ended September 30, 2004 compared to the same period ended September 30, 2003. This decrease was mainly the result of a reduction in the sales of compressor units and parts. Because our products are custom-built, fluctuations in compressor unit revenue from outside sources is not unusual. The reduction in parts sales is the result of a change in our discount status with a major supplier in northern Michigan. We expect this to be a temporary situation. Also our customer base has dictated the trend toward leasing since most would rather rent than buy. Also our current plant capacity is used to fill our existing customer needs for rental equipment.

Service and maintenance revenue decreased from \$452,000 to \$437,000, or 4% for the three months ended September 30, 2004 compared to the same period ended September 30, 2003. This revenue source is subject to seasonal change since over 90% of this activity is generated in northern Michigan and is subject to swings in weather conditions.

Leasing revenue increased from \$1,875,000 to \$2,731,000, or 47% for the three months ended September 30, 2004 compared to the same period ended September 30, 2003. This increase was the result of additional units added to our rental unit fleet and leased to third parties. The company added 45 gas compressors to its rental fleet in the quarter ended September 30, 2004.

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Total Revenue Breakdown for Three Months Ended September 30, 2004  
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Sales Revenue	18%
Service & Maintenance Revenue	11%
Leasing Revenue	71%

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The gross margin percentage increased from 50% for the three months ended September 30, 2003 to 58% for the same period ended September 30, 2004. Although we expect our margins to increase as our rental revenue increases because our rental fleet carries a gross margin averaging 70%, changes in the product mix during the quarter help to average out the gross margin company wide.

Selling, general and administrative expense increased from \$556,000 to \$652,000 or 17% for the three months ended September 30, 2004, as compared to the same period ended September 30, 2003. This was mainly the result of the increase in commissions from additional leasing contracts on gas compressors to third parties and an increase in sales and administration salary expense.

Depreciation and amortization expense increased 41% from \$456,000 to \$642,000 for the three months ended September 30, 2004, compared to the same period ended September 30, 2003. This increase was the result of 45 new gas compressor rental units being added to rental equipment during the three months ended September 30, 2004.

There was a 20% increase in interest expense for the three months ended September 30, 2004 compared to the same period ended September 30, 2003, which was mainly due to the increase in loan balances for rental equipment.

Provision for income tax decreased \$2,000, or 1%, primarily due from a change in our effective tax rate. The effective tax rate changed because of a reduction in our state taxes as a result the merger of our subsidiaries effective January 1, 2004.

#### Forward Looking Statements

Some statements contained in this Report, and the documents incorporated by reference, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 (or Securities Act) and Section 21E of the Exchange Act. These statements include, without limitation, statements relating to oil and gas prices, demand for oil and gas, budgets, business strategies and other plans, intentions and objectives of our management for future operations and activities and other such matters. The words "believe", "budget", "plan", "estimate", "expect", "intend", "strategy", "project", "will", "could", "may",

"anticipate", "continue", and similar expressions identify forward-looking statements. We believe the assumptions and expectations reflected in these forward-looking statements are reasonable. However, we cannot give any assurance that our expectations will prove to be correct or that we will be able to take any actions that are presently planned. Actual results could differ materially from those expressed in the forward-looking statements. Factors that could cause such a difference include:

- o fluctuations in prices of oil and gas;
- o future capital requirements and availability of financing;
- o competition;
- o general economic conditions;
- o governmental regulations;
- o receipt of amounts owed to us by our customers;
- o events similar to 9/11; and
- o fluctuations in interest rates and availability of capital.

You are cautioned not to place undue reliance on any of our forward-looking statements, which speak only as of the date of the document or in the case of documents incorporated by reference, the date of those documents.

### Item 3. Controls and Procedures

#### (a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in timely alerting them to the material information relating to us that are required to be included in our periodic filings with the SEC.

#### (b) Changes in internal controls.

There were no changes made in our internal controls during the period covered by this report that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting. In addition, to our knowledge there were no changes, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

## PART II - OTHER INFORMATION

NATURAL GAS SERVICES GROUP, INC.

### Item 1. Legal Proceedings

From time to time, we are a party to ordinary routine litigation incidental to our business. We are not currently a party to any pending litigation, and we are not aware of any threatened litigation.

Item 6. Exhibits

The following exhibits are filed herewith or incorporated by reference, as indicated:

Exhibit No.	Description
2.1	Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc. (Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K dated February 28, 2003 and filed with the Securities and Exchange Commission on March 6, 2003)
*3.1	Articles of Incorporation, as amended
3.2	Bylaws (Incorporated by reference to Exhibit 3.4 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
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10.3	Exhibits 3(c)(1), 3(c)(2), 3(c)(3), 3(c)(4), 13(d)(1), 13(d)(2) and 13(d)(3) to Asset Purchase Agreement, dated January 1, 2001, between the Registrant and Great Lakes Compression, Inc. (Incorporated by reference to Exhibit 10.14 of the Registrant's Registration Statement on Form SB-2, No. 333-88314)
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10.20	Second Amended and Restated Loan Agreement, dated November 3, 2003, between the Registrant and Western National Bank (Incorporated by reference to Exhibit 10.20 of the Registrant's Form 10-QSB for the fiscal quarter ended June 30, 2004)
10.21	Securities Purchase Agreement, dated July 20, 2004, between the Registrant and CBarney Investments, Ltd. (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated July 20, 2004 and filed with the Securities and Exchange Commission on July 27, 2004)

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10.22	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)
*31.1	Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002
-----	

\* Filed herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace Sparkman  
-----  
Wallace Sparkman  
President and Chief Executive  
Officer

By: /s/ Earl R. Wait  
-----  
Earl R. Wait  
Chief Financial Officer  
And Treasurer

November 9, 2004

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\* Filed herewith.

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 and 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 street 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
Burnace 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 terms 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 are 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 other 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

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

Mail to: Secretary of State

For office use only

Corporations Section  
1560 Broadway, Suite 200  
Denver, CO 80202  
(303) 894-2251  
Fax (303) 894-2242

MUST BE TYPED  
FILING FEE: \$5.00  
MUST SUBMIT TWO COPIES  
-----

STATEMENT OF CHANGE OF  
REGISTERED OFFICE OR  
REGISTERED AGENT, OR BOTH

Please include a typed  
self addressed envelope

Pursuant to the provisions of the Colorado Business Corporation Act, the Colorado Nonprofit Corporation Act, the Colorado Uniform Limited Partnership Act of 1981 and the Colorado Limited Liability Company Act, the undersigned, organized under the laws of:

Colorado

-----  
submits the following statement for the purpose of changing its registered office or its registered agent, or both, in the state of Colorado:

FIRST: The name of the corporation, limited partnership or limited liability company is:

Natural Gas Services Group, Inc.  
-----

SECOND: Street address of current REGISTERED OFFICE is:

4643 S. Ulster Street, Suite 900, Denver, Colorado 80237  
-----

(Include City, State, Zip)

and if changed, the new street address is:

1899 Wynkoop Street, Suite 700, Denver, Colorado 80202  
-----

(Include City, State, Zip)

THIRD: The name of its current REGISTERED AGENT is: Thomas S. Smith  
-----

and if changed, the new registered agent is: Theresa M. Mehringer  
-----

Signature of New Registered Agent: /s/ Theresa M. Mehringer  
-----

Principal place of business: 1899 Wynkoop Street, Suite 700,  
Denver, Colorado 80202  
-----

(City, State, Zip)

The address of its registered office and the address of the business office of its registered agent, as changed, will be identical.

FOURTH: If changing the principal place of business address ONLY, the new address is: N/A  
-----

Signature: /s/ Theresa M. Mehringer  
-----

Title: Registered Agent  
-----

Donetta Davidson  
SECRETARY OF STATE  
Denver, Colorado 80202

DEPARTMENT OF STATE  
1560 Broadway Suite 200

Commercial Filings  
303-894-2251

MEHRINGER THERESA M  
NATURAL GAS SERVICES GROUP, INC.  
1899 WYNKOOP STREET STE 700  
DENVER CO 80202

19981223954 DPC  
STATE/COUNTRY OF INC CO  
DELINQUENT PERIODIC REPORT

FEE \$25.00 DUE ON OR BEFORE 05/31/2001

PERIODIC REPORT , made pursuant to section 7-90-501, C.R.S., on behalf of the entity identified above. This report must be typed, or if legible, it may be manually printed. Execution (a signature) is not required. Report current information for the following items: no director, officer or any other information is required.

- 1. Name of individual completing Report: Sandra L. Potter  
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  - 2. Name of entity's Registered Agent: Theresa M. Mehringer  
-----
  - 3. Street Address of entity's Registered Office(must be in Colorado):  
1899 Wynkoop Street, Suite 708 Denver, Co 80202  
-----
- If mail is undeliverable to this address, ALSO include a P.O. box address: -----
- 4. Address of entity's Principal Office: Same as registered agent  
-----
  - Optional: 5. Additional mailing address for entity: -----
  - Optional: 6. Entity's e-mail address -----

If more space is required for any of the above items, continue on an attached 8 1/2 x 11 sheet and check here

Deliver this Report to:  
Colorado Secretary of State  
1560 Broadway Ste 200  
Denver CO 80202-5169

Include the fee stated above (\$25.00 ) made payable to: Colorado Secretary of State. This report must be received (not postmarked) on or before the due date stated above.

For more information, call 303-894-2251, fax 303-894-2242, e-mail sos.business@state.co.us, or visit our Web site, www.sos.state.co.us .



Mail to: Secretary of State

For office use only

Corporations Section  
1560 Broadway, Suite 200  
Denver, CO 80202  
(303) 894-2251  
Fax (303) 894-2242

MUST BE TYPED  
FILING FEE: \$5.00  
MUST SUBMIT TWO COPIES  
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STATEMENT OF CHANGE OF  
REGISTERED OFFICE OR  
REGISTERED AGENT, OR BOTH

Please include a typed  
self addressed envelope

Pursuant to the provisions of the Colorado Business Corporation Act, the Colorado Nonprofit Corporation Act, the Colorado Uniform Limited Partnership Act of 1981 and the Colorado Limited Liability Company Act, the undersigned, organized under the laws of:

submits the following statement for the purpose of changing its registered office or its registered agent, or both, in the state of Colorado:

FIRST: The name of the corporation, limited partnership or limited liability company is:

Natural Gas Services Group, Inc.  
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SECOND: Street address of current REGISTERED OFFICE is:

1899 Wynkoop Street, Suite 700, Denver, Colorado 80202  
-----

(Include City, State, Zip)

and if changed, the new street address is:

370 17th Street, Suite 370, Denver, Colorado 80202  
-----

(Include City, State, Zip)

THIRD: The name of its current REGISTERED AGENT is: Theresa M. Mehringer  
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and if changed, the new registered agent is: Thomas S. Smith  
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Signature of New Registered Agent: /s/ Thomas S. Smith  
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Principal place of business: 2911 SCR 1260, Midland, Texas 79706  
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(City, State, Zip)

The address of its registered office and the address of the business office of its registered agent, as changed, will be identical.

FOURTH: If changing the principal place of business address ONLY, the new address is:  
-----

Signature: /s/ Wallace Sparkman  
-----

Title: President  
-----

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 11.6 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, maybe 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

Mail to: Secretary of State

For office use only

Corporations Section  
1560 Broadway, Suite 200  
Denver, CO 80202  
(303) 894-2251  
Fax (303) 894-2242

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STATEMENT OF CHANGE OF  
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submits the following statement for the purpose of changing its registered office or its registered agent, or both, in the state of Colorado:

FIRST: The name of the corporation, limited partnership or limited liability company is:

Natural Gas Services Group, Inc.  
-----

SECOND: Street address of current REGISTERED OFFICE is:

370 17th Street, Suite 370, Denver, Colorado 80202  
-----

(Include City, State, Zip)

and if changed, the new street address is:

370 17th Street, Suite 370, Denver, Colorado 80202  
-----

(Include City, State, Zip)

THIRD: The name of its current REGISTERED AGENT is: Thomas S. Smith  
-----

and if changed, the new registered agent is:  
-----

Signature of New Registered Agent:  
-----

Principal place of business: 2911 SCR 1260, Midland, Texas 79706  
-----

(City, State, Zip)

The address of its registered office and the address of the business office of its registered agent, as changed, will be identical.

FOURTH: If changing the principal place of business address ONLY, the new address is:  
-----

Signature: /s/ Wayne Vinson  
-----

Title: President  
-----

STATE OF COLORADO  
DONETTA DAVIDSON  
SECRETARY OF STATE  
1560 BROADWAY STE 200  
DENVER, CO 80202-5169

RETURN SERVICE REQUESTED

PERIODIC REPORT

Fee \$25.00 due on or  
before 02/28/2003

19981223954 DPC  
STATE/COUNTRY OF INC. CO.

20021334763 M  
\$ 25.00  
SECRETARY OF STATE  
2-04-2002 15:34:29

NATURAL GAS SERVICES GROUP  
SMITH THOMAS S  
370 17th STREET STE 4700  
DENVER CO 80202



Official Business - Colorado Secretary of State  
Save \$\$! E-file this report at [www.sos.state.co.us/periodic-report](http://www.sos.state.co.us/periodic-report)

This is a PERIODIC REPORT made on behalf of the entity identified on the reverse side. This Report must be typed or, if legible, it may be hand written. Report current information for the following items. Complete items 1 through 4 or this Report will be rejected. All addresses must be complete.

1. Name of individual completing Report: Thomas S. Smith  
-----

2. Name of entity's Registered Agent: Thomas S. Smith, Esq.  
-----

3. Street Address of entity's Registered Office(must be in Colorado):  
370 17th St., Suite 4700 Denver, Co 80202  
-----

If mail is undeliverable to this address, ALSO include a P.O. box address: -----

4. Address of entity's Principal Office: Same as previous report  
-----

Optional: 5. Additional mailing address for entity:  
-----

Optional: 6. Entity's e-mail address  
-----

If more space is required for any of the above items, continue on an attached 8 1/2 x 11 sheet and check here

Deliver this Report to:  
Colorado Secretary of State  
1560 Broadway Ste 200  
Denver CO 80202-5169

Include the fee stated on reverse, payable to: Colorado Secretary of State. This report must be received (not postmarked) on or before the due date stated on the reverse side.

For more information, call 303-894-2200 press 2, fax 303-869-4864, e-mail [sos.business@state.co.us](mailto:sos.business@state.co.us), or visit our Web site, [www.sos.state.co.us](http://www.sos.state.co.us) and view existing information.  
No Signature Required Form 7.90.501.1 revised 9/11/200

STATEMENT OF CHANGE OF REGISTERED OFFICE OR REGISTERED AGENT,  
OR BOTH

Pursuant to Title 7, Colorado Revised Statutes (C.R.S.), the individual named below causes the following statement to be delivered to the Colorado Secretary of State for filing:

1. The name of the entity is: NATURAL GAS SERVICES GROUP, INC.
2. The entity is organized under the laws of: THE STATE OF COLORADO
3. The street address of its current registered office is:  
370 17th STREET,  
SUITE 4700 DENVER, CO 80202
4. The street address of the new registered office is: 1625 BROADWAY, SUITE 1600  
DENVER, CO 80202
5. The name of its current registered agent is: THOMAS S. SMITH
6. The name of its new registered agent is: THOMAS S. SMITH
7. If the registered agent is changing the street address of the registered agent's business address, notice of the change has been given to the above named entity.
8. The street addresses of its registered office and of the business office of its registered agent, as changed, will be identical.
9. The (a) name, and (b) mailing address, of the individual who causes this document to be delivered for filing, and to whom the Secretary of State may deliver notice if filing of this document is refused, are: THOMAS S. SMITH, ESQ. c/o JONES & KELLER, P.C., 1625 BROADWAY, SUITE 1600, DENVER, COLORADO 80202.

ARTICLES OF AMENDMENT  
TO THE  
AMENDED 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 Amended Articles of Incorporation:

FIRST: The name of the Corporation is Natural Gas Services Group, Inc.

SECOND: The following amendment to the Amended Articles of Incorporation was duly adopted by a vote of the shareholders at a meeting held on June 18, 2003; and the number of votes cast for the amendment by each voting group was sufficient for approval by that voting group.

The first paragraph of Section II.6 of Article II of the Articles of Incorporation is hereby amended to change the number of shares of 10% Convertible Series A Preferred Stock from 1,177,000 to 381,654.

The (a) name, and (b) mailing address, of the individual who caused this document to be delivered for filing, and to whom the Secretary of State may deliver notice of filing if this document is refused, is: Scott W. Sparkman, Secretary, Natural Gas Services Group, Inc., 2911 South County Road 1260, Midland, Texas 79706

ARTICLES OF MERGER  
MERGING  
GREAT LAKES COMPRESSION, INC.  
INTO  
NATURAL GAS SERVICES GROUP, INC.

ARTICLES OF MERGER entered into this 3rd day of December, 2003, by and between Natural Gas Services Group, Inc., a Colorado corporation, and Great Lakes Compression, Inc., a Colorado corporation.

THIS IS TO CERTIFY:

FIRST: NATURAL GAS SERVICES GROUP, INC., a corporation incorporated under the Colorado Business Corporation Act on December 17, 1998 and existing under the laws of the State of Colorado (hereinafter sometimes referred to as the "Parent Corporation"), and Great Lakes Compression, Inc., a corporation incorporated under the Colorado Business Corporations Act on February 6, 2001 and existing under the laws of the State of Colorado (hereinafter sometimes referred to as the "Subsidiary Corporation") agree that the Subsidiary Corporation shall be merged into the Parent Corporation. The terms and conditions of the merger and the mode of carrying the same into effect are as herein set forth in these Articles of Merger. In addition, the Plan of Merger, as required by Sections 7-111-104 and 7-111-105(a) of the Colorado Business Corporations Act, is set forth below and contained within these Articles of Merger.

SECOND: The Parent Corporation shall survive the merger and continue under the name of "NATURAL GAS SERVICES GROUP, INC."

THIRD: The parties to these Articles of Merger are Parent Corporation and Subsidiary Corporation.

FOURTH: No amendment is made to the Articles of Incorporation of Parent Corporation, the surviving corporation, as part of the merger.

FIFTH: The total number of shares of stock of all classes that the Parent Corporation has authority to issue is 30,000,000 shares of common stock and 5,000,000 shares of preferred stock. The total number of shares of stock of all classes which the Subsidiary Corporation has authority to issue is 15,000 shares of common stock and 1,000 shares of preferred stock (hereinafter referred to as the "Subsidiary Stock").

SIXTH: Immediately before the merger, 100% of the outstanding shares of each class of the Subsidiary Corporation were owned by the Parent Corporation.

SEVENTH: All issued shares of the Subsidiary Stock which are owned by the Parent Corporation, and all shares of the Subsidiary Stock held in its treasury, on the date of the merger shall be cancelled without consideration on the effective date of the merger.

EIGHTH: The principal office of the Subsidiary Corporation is located at 2911 SCR 1260, Midland, Texas 79706.

NINTH: The name and address of the registered agent of the Parent Corporation in Colorado, the State of its incorporation, service of process upon whom shall bind such corporation in any action, suit or proceeding pending at the time of filing these Articles of Merger or thereafter instituted or filed against it, are: Thomas S. Smith, 1625 Broadway, Suite 1600, Denver, CO 80202.

TENTH: These Articles of Merger and the merger were not required to be approved by either the shareholder of the Subsidiary Corporation or the shareholders of the Parent Corporation.

ELEVENTH: These Articles of Merger and the merger to be effected hereby were duly advised, authorized and approved by resolution adopted by a majority vote of the entire board of directors of the Parent Corporation on December 3, 2003, and thus the merger was authorized and approved by the Parent Corporation in the manner and by the vote required by the laws of the State of Colorado and by the Articles of Incorporation and Bylaws of said corporation. The approval of these Articles of Merger was duly authorized by all action required by the laws under which Parent Corporation was incorporated or organized and by its constituent documents.

TWELFTH: The effective date of this merger shall be on January 1, 2004, and such effective date complies with Section 7-111-104(5) of the Colorado Business Corporations Act.

THIRTEENTH: The (a) name, and (b) mailing address, of the individual who caused this document to be delivered for filing, and to whom the Secretary of State may deliver notice if filing of this document is refused, is: Scott W. Sparkman, Secretary, Natural Gas Services Group, Inc., 2911 South County Road 1260, Midland, Texas 79706.

FOURTEENTH: Parent Corporation will be responsible for the payment of all fees and franchise taxes of the Subsidiary Corporation and Parent Corporation will be obligated to pay such fees and franchise taxes if the same are not timely paid.

ARTICLES OF MERGER  
MERGING  
NGE LEASING, INC.  
INTO  
NATURAL GAS SERVICES GROUP, INC.

ARTICLES OF MERGER entered into this 3rd day of December, 2003, by and between Natural Gas Services Group, Inc., a Colorado corporation, and NGE Leasing, Inc., a Texas corporation.

THIS IS TO CERTIFY:

FIRST: NATURAL GAS SERVICES GROUP, INC., a corporation incorporated under the Colorado Business Corporation Act on December 17, 1998 and existing under the laws of the State of Colorado (hereinafter sometimes referred to as the "Parent Corporation"), and NGE Leasing, Inc., a corporation incorporated under the Texas Business Corporations Act on February 5, 1996 and existing under the laws of the State of Texas (hereinafter sometimes referred to as the "Subsidiary Corporation") agree that the Subsidiary Corporation shall be merged into the Parent Corporation. The terms and conditions of the merger and the mode of carrying the same into effect are as herein set forth in these Articles of Merger. In addition, the Plan of Merger, as required by Sections 7-111-104 and 7-111-105(a) of the Colorado Business Corporations Act, is set forth below and contained within these Articles of Merger.

SECOND: The Parent Corporation shall survive the merger and continue under the name of "NATURAL GAS SERVICES GROUP, INC."

THIRD: The parties to these Articles of Merger are Parent Corporation and Subsidiary Corporation.

FOURTH: No amendment is made to the Articles of Incorporation of Parent Corporation, the surviving corporation, as part of the merger.

FIFTH: The total number of shares of stock of all classes that the Parent Corporation has authority to issue is 30,000,000 shares of common stock and 5,000,000 shares of preferred stock. The total number of shares of stock of all classes which the Subsidiary Corporation has authority to issue is 1,000 shares of common stock (hereinafter referred to as the "Subsidiary Stock").

SIXTH: Immediately before the merger, 100% of the outstanding shares of each class of the Subsidiary Corporation were owned by the Parent Corporation.

SEVENTH: All issued shares of the Subsidiary Stock which are owned by the Parent Corporation, and all shares of the Subsidiary Stock held in its treasury, on the date of the merger shall be cancelled without consideration on the effective date of the merger.

EIGHTH: The principal office of the Subsidiary Corporation is located at 2911 SCR 1260, Midland, Texas 79706.

NINTH: The name and address of the registered agent of the Parent Corporation in Colorado, the State of its incorporation, service of process upon whom shall bind such corporation in any action, suit or proceeding pending at the time of filing these Articles of Merger or thereafter instituted or filed against it, are: Thomas S. Smith, 1625 Broadway, Suite 1600, Denver, CO 80202.

TENTH: These Articles of Merger and the merger were not required to be approved by either the shareholder of the Subsidiary Corporation or the shareholders of the Parent Corporation.

ELEVENTH: These Articles of Merger and the merger to be effected hereby were duly advised, authorized and approved by resolution adopted by a majority vote of the entire board of directors of the Parent Corporation on December 3, 2003, and thus the merger was authorized and approved by the Parent Corporation in the manner and by the vote required by the laws of the States of Colorado and Texas and by the Articles of Incorporation and Bylaws of said corporation. The approval of these Articles of Merger was duly authorized by all action required by the laws under which Parent Corporation was incorporated or organized and by its constituent documents.

TWELFTH: The effective date of this merger shall be on January 1, 2004, and such effective date complies with Section 7-111-104(5) of the Colorado Business Corporations Act.

THIRTEENTH: The (a) name, and (b) mailing address, of the individual who caused this document to be delivered for filing, and to whom the Secretary of State may deliver notice if filing of this document is refused, is: Scott W. Sparkman, Secretary, Natural Gas Services Group, Inc., 2911 South County Road 1260, Midland, Texas 79706.

FOURTEENTH: Parent Corporation will be responsible for the payment of all fees and franchise taxes of the Subsidiary Corporation and Parent Corporation will be obligated to pay such fees and franchise taxes if the same are not timely paid.

IN WITNESS WHEREOF, NATURAL GAS SERVICES GROUP, INC. has caused these Articles of Merger to be signed in its name and on its behalf by its president and witnessed or attested by its secretary as of the 3rd day of December, 2003.

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wayne L. Vinson

-----  
Name: Wayne L. Vinson  
Its: President

ATTEST:

By: /s/ Scott W. Sparkman

-----  
Name: Scott W. Sparkman  
Its: Secretary

ARTICLES OF MERGER  
MERGING  
ROTARY GAS SYSTEMS, INC.  
INTO  
NATURAL GAS SERVICES GROUP, INC.

ARTICLES OF MERGER entered into this 3rd day of December, 2003, by and between Natural Gas Services Group, Inc., a Colorado corporation, and Rotary Gas Systems, Inc., a Texas corporation.

THIS IS TO CERTIFY:

FIRST: NATURAL GAS SERVICES GROUP, INC., a corporation incorporated under the Colorado Business Corporation Act on December 17, 1998 and existing under the laws of the State of Colorado (hereinafter sometimes referred to as the "Parent Corporation"), and Rotary Gas Systems, Inc., a corporation incorporated under the Texas Business Corporations Act on November 2, 1989 and existing under the laws of the State of Texas (hereinafter sometimes referred to as the "Subsidiary Corporation") agree that the Subsidiary Corporation shall be merged into the Parent Corporation. The terms and conditions of the merger and the mode of carrying the same into effect are as herein set forth in these Articles of Merger. In addition, the Plan of Merger, as required by Sections 7-111-104 and 7-111-105(a) of the Colorado Business Corporations Act, is set forth below and contained within these Articles of Merger.

SECOND: The Parent Corporation shall survive the merger and continue under the name of "NATURAL GAS SERVICES GROUP, INC."

THIRD: The parties to these Articles of Merger are Parent Corporation and Subsidiary Corporation.

FOURTH: No amendment is made to the Articles of Incorporation of Parent Corporation, the surviving corporation, as part of the merger.

FIFTH: The total number of shares of stock of all classes that the Parent Corporation has authority to issue is 30,000,000 shares of common stock and 5,000,000 shares of preferred stock. The total number of shares of stock of all classes which the Subsidiary Corporation has authority to issue is 1,000,000 shares of common stock (hereinafter referred to as the "Subsidiary Stock").

SIXTH: Immediately before the merger, 100% of the outstanding shares of each class of the Subsidiary Corporation were owned by the Parent Corporation.

SEVENTH: All issued shares of the Subsidiary Stock which are owned by the Parent Corporation, and all shares of the Subsidiary Stock held in its treasury, on the date of the merger shall be cancelled without consideration on the effective date of the merger.



EIGHTH: The principal office of the Subsidiary Corporation is located at 2911 SCR 1260, Midland, Texas 79706.

NINTH: The name and address of the registered agent of the Parent Corporation in Colorado, the State of its incorporation, service of process upon whom shall bind such corporation in any action, suit or proceeding pending at the time of filing these Articles of Merger or thereafter instituted or filed against it, are: Thomas S. Smith, 1625 Broadway, Suite 1600, Denver, CO 80202.

TENTH: These Articles of Merger and the merger were not required to be approved by either the shareholder of the Subsidiary Corporation or the shareholders of the Parent Corporation.

ELEVENTH: These Articles of Merger and the merger to be effected hereby were duly advised, authorized and approved by resolution adopted by a majority vote of the entire board of directors of the Parent Corporation on December 3, 2003, and thus the merger was authorized and approved by the Parent Corporation in the manner and by the vote required by the laws of the States of Colorado and Texas and by the Articles of Incorporation and Bylaws of said corporation. The approval of these Articles of Merger was duly authorized by all action required by the laws under which Parent Corporation was incorporated or organized and by its constituent documents.

TWELFTH: The effective date of this merger shall be on January 1, 2004, and such effective date complies with Section 7-111-104(5) of the Colorado Business Corporations Act.

THIRTEENTH: The (a) name, and (b) mailing address, of the individual who caused this document to be delivered for filing, and to whom the Secretary of State may deliver notice if filing of this document is refused, is: Scott W. Sparkman, Secretary, Natural Gas Services Group, Inc., 2911 South County Road 1260, Midland, Texas 79706.

FOURTEENTH: Parent Corporation will be responsible for the payment of all fees and franchise taxes of the Subsidiary Corporation and Parent Corporation will be obligated to pay such fees and franchise taxes if the same are not timely paid.

IN WITNESS WHEREOF, NATURAL GAS SERVICES GROUP, INC. has caused these Articles of Merger to be signed in its name and on its behalf by its president and witnessed or attested by its secretary as of the 3rd day of December, 2003.

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wayne L. Vinson

-----  
Name: Wayne L. Vinson  
Its: President

ATTEST:

By: /s/ Scott W. Sparkman

-----  
Name: Scott W. Sparkman  
Its: Secretary

File Number: 20041003202  
Filing Fee: \$10.00  
Filed: January 6, 2004 11:30 AM MST

Entity ID Number: 19981223954  
Entity Name: NATURAL GAS SERVICES GROUP, INC.

Jurisdiction of Formation CO

Person responsible for accuracy of report data: Thomas S. Smith  
1625 Broadway, Suite 1600  
Denver, Colorado 80202

Name of Entity's Registered Agent: THOMAS S. SMITH

Street Address of Registered Office: 1625 BROADWAY, SUITE 1600  
DENVER, CO 80202

\*PO Box Addr of Registered Office:

Address of Entity's Principal Office: 2911 SOUTH COUNTY ROAD 1260  
MIDLAND, TX 79706, United States

\*Entity's Additional Mailing Address:

\*Denotes optional information that is not required by law.  
If no information is displayed for this item, none was reported by the reporting entity. All information available to the Secretary of State is displayed above.

NOTICE:  
This "image" is merely a display of information that was filed electronically. It is not an image that was created by optically scanning a paper document. No such paper document was filed. Consequently, no copy of a paper document is available regarding this filing.

Questions? Contact the Business Division. For contact information, please visit the Secretary of State's web site.

STATEMENT OF CHANGE OF REGISTERED OFFICE  
OR REGISTERED AGENT, OR BOTH

Form 150 NOT VALID AFTER JUNE 30, 2004

Read about new Forms at [www.sos.state.co.us](http://www.sos.state.co.us)

Filing fee: \$5.00

Deliver 3\* copies to: Colorado Secretary of State  
Business Division, 1560 Broadway, Suite 200  
Denver, CO 80202-5169

This document must be typed or machine printed

Copies of filed documents may be obtained at [www.sos.state.co.us](http://www.sos.state.co.us)

ABOVE SPACE FOR OFFICE USE ONLY

Pursuant to Title 7 and part 3 of article 90 of title 7, Colorado Revised Statutes (C.R.S.), the following statement is delivered to the Colorado Secretary of State for filing:

1. The name of the entity is: Natural Gas Services Group, Inc.

(must be exactly as shown on the records of the Secretary of State)

organized under the laws of Colorado (state or country of origin)

2. If above entity is foreign, the assumed entity name, if any, currently using in Colorado:

3. The street address of its current registered office (according to the existing records of the Secretary of State) is:  
1625 Broadway, Ste 1600, Denver, Colorado 80202

4. If the registered office address is to be changed, the street address of the new registered office is:  
25125 East Plymouth Circle, Aurora, Colorado 80016

(must be a street or other physical address in Colorado) If mail is undeliverable to this address, ALSO include a post office box address:

5. The name of its current registered agent is (according to the existing records of the Secretary of State):

Thomas S. Smith

6. If the registered agent is to be changed, the name of the new registered agent is:

7. If the registered agent is changing the street address of the registered agent's business address, notice of the change has been given to the above named entity.

8. The street addresses of its registered office and of the business office of its registered agent, as changed, will be identical.

9. (Optional) Address of its principal place of business is:

and if changed, the new address of its principal place of business is:

10. The (a) name, and (b) mailing address, of the individual who causes this document to be delivered for filing, and to whom the Secretary of State may deliver notice if filing of this document is refused, are:

Thomas S. Smith, 25125 East Plymouth Circle, Aurora, Colorado 80016

Please refer to ss.7-90-301(8), C.R.S.

\*NOTE: If this document is changing the registered office or registered agent, the Secretary of State must deliver a copy of the document (1) to the registered office as last designated before the change and (2) to the principal office of the entity.

Disclaimer: This form, and any related instructions, are not intended to provide legal, business or tax advice, and are offered as a public service without representation or warranty. While this form is believed to satisfy minimum legal requirements as of its revision date, compliance with applicable law, as the same may be amended from time to time, remains the responsibility of the user of this form. Questions should be addressed to the user's attorney.

Certification of Principal Executive Officer Under  
Section 302 of the Sarbanes-Oxley Act of 2002

I, Wallace C. Sparkman, Chief Executive Officer of Natural Gas Services Group, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Natural Gas Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely effect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 9, 2004

Signature: /s/ Wallace C. Sparkman  
-----  
Wallace C. Sparkman

Title: Chief Executive Officer

Certification of Principal Financial Officer Under  
Section 302 of the Sarbanes-Oxley Act of 2002

I, Earl R. Wait, Chief Financial Officer of Natural Gas Services Group, Inc.,  
certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Natural Gas  
Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue  
statement of a material fact or omit to state a material fact necessary to make  
the statements made, in light of the circumstances under which such statements  
were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial  
information included in this report, fairly present in all material respects the  
financial condition, results of operations and cash flows of the small business  
issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are  
responsible for establishing and maintaining disclosure controls and procedures  
(as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small  
business issuer and have:

(a) Designed such disclosure controls and procedures, or  
caused such disclosure controls and procedures to be designed under our  
supervision, to ensure that material information relating to the small business  
issuer, including its consolidated subsidiaries, is made known to us by others  
within those entities, particularly during the period in which this report is  
being prepared;

(b) Evaluated the effectiveness of the small business issuer's  
disclosure controls and procedures and presented in this report our conclusions  
about the effectiveness of the disclosure controls and procedures, as of the end  
of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business  
issuer's internal control over financial reporting that occurred during the  
small business issuer's most recent fiscal quarter (the small business issuer's  
fourth fiscal quarter in the case of an annual report) that has materially  
affected, or is reasonably likely to materially affect, the small business  
issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have  
disclosed, based on our most recent evaluation of internal control over  
financial reporting, to the small business issuer's auditors and the audit  
committee of the small business issuer's board of directors (or persons  
performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in  
the design or operation of internal control over financial reporting which are  
reasonably likely to adversely effect the small business issuer's ability to  
record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves  
management or other employees who have a significant role in the small business  
issuer's internal control over financial reporting.

Date: November 9, 2004

Signature: /s/ Earl R. Wait

-----  
Earl R. Wait

Title: Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. ss.1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Natural Gas Services Group, Inc. (the "Company") on Form 10-QSB for the period ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wallace C. Sparkman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Wallace C. Sparkman

-----  
Wallace C. Sparkman  
Chief Executive Officer

November 9, 2004

CERTIFICATION PURSUANT TO  
18 U.S.C. ss.1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Natural Gas Services Group, Inc. (the "Company") on Form 10-QSB for the period ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Earl R. Wait, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Earl R. Wait

-----  
Earl R. Wait  
Chief Financial Officer

November 9, 2004