

NATURAL GAS SERVICES GROUP INC  
Form 8-K  
May 06, 2008

---

---

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): May 6, 2008

NATURAL GAS SERVICES GROUP, INC  
(Exact name of registrant as specified in its charter)

|   |  |   |
|---|--|---|
| Colorado<br>(State or other jurisdiction<br>of incorporation) | 1-31398<br>(Commission<br>File Number) | 75-2811855<br>(I.R.S. Employer<br>Identification No.) |
|---|--|---|

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

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

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

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

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

---

Item 2.02. Results of Operations and Financial Condition.

On May 6, 2008, Natural Gas Services Group, Inc. issued a press release announcing its results of operations for the first quarter ended March 31, 2008. The press release issued on May 6, 2008 is furnished as Exhibit No. 99 to this Current Report on Form 8-K. Natural Gas Services Group's annual report on Form 10-K and its reports on Forms 10-Q and 8-K and other publicly available information should be consulted for other important information about Natural Gas Services Group, Inc.

The information in this Current Report on Form 8-K, including Exhibit No. 99 hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section. The information in this Current Report shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

The Exhibit listed below is furnished as an Exhibit to this Current Report on Form 8-K.

| Exhibit No. | Description of Exhibit  |
|-------------|---|
| 99          | Press release issued May 6, 2008<br>(furnished pursuant to Item 2.02) |

---

SIGNATURES

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

NATURAL GAS SERVICES GROUP, INC.

Date: May 6, 2008

By: /s/ Stephen C. Taylor  
Stephen C. Taylor  
Chairman of the Board, President  
and Chief Executive Officer

---

EXHIBIT INDEX

| Exhibit No. | Description of Exhibit  |
|-------------|---|
| 99          | Press release issued May 6, 2008<br>(furnished pursuant to Item 2.02) |

---

[Missing Graphic Reference]

FOR IMMEDIATE RELEASE  
May 6, 2008

NEWS  
Amex – NGS

NATURAL GAS SERVICES GROUP ANNOUNCES A 31% INCREASE IN NET INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2008

25% Increase in EBITDA for the Three Months ended March 31, 2008 to \$7.8 million  
32% Increase in EPS (Diluted) for the Three Months ended March 31, 2008 to \$0.29 per share

MIDLAND, Texas, May 6, 2008 – Natural Gas Services Group, Inc. (AMEX:NGS), a leading provider of equipment and services to the natural gas industry, announces its financial results for the first quarter ended March 31, 2008.

(in thousands of dollars, except per share  
amounts)

|                                   | Three Months Ended March 31, |           | Change |
|-----------------------------------|------------------------------|-----------|--------|
|                                   | 2007                         | 2008      |        |
|                                   | (unaudited)                  |           |        |
| Revenue                           | \$ 16,712                    | \$ 18,933 | 13%    |
| Operating income                  | 4,203                        | 5,453     | 30%    |
| Net income                        | 2,681                        | 3,517     | 31%    |
| EBITDA                            | 6,272                        | 7,811     | 25%    |
| EPS (Basic)                       | 0.22                         | 0.29      | 32%    |
| EPS (Diluted)                     | 0.22                         | 0.29      | 32%    |
| Weighted avg. shares outstanding: |                              |           |        |
| Basic                             | 12,061                       | 12,085    |        |
| Diluted                           | 12,083                       | 12,144    |        |

**Revenue:** Total revenue increased from \$16.7 million to \$18.9 million, or 13%, for the three months ended March 31, 2008, compared to the same period ended March 31, 2007. This increase was primarily the result of a 30% growth in rental revenue.

**Operating income:** Operating income increased from \$4.2 million to \$5.5 million, or 30%, for the three months ended March 31, 2008, compared to the same period ended March 31, 2007. Higher compressor sales gross margins were the largest factor contributing to the increase of operating income.

**Net income:** Net income for the three months ended March 31, 2008, increased 31% to \$3.5 million, as compared to net income of \$2.7 million for the same period in 2007. Increased operating income, a lower income tax rate, and lower interest expense from our reduced debt balances contributed to the increase in net income.

**EBITDA:** EBITDA (see discussion of EBITDA at the end of this release) increased 25% to \$7.8 million for the first quarter ended March 31, 2008, versus \$6.3 million for the same period in 2007.

**Earnings per Share:** Earnings per diluted share were \$0.29 during the three months ending March 31, 2008 as compared to \$0.22 during the same 2007 period, a 32% increase.



Steve Taylor, President and CEO of Natural Gas Services Group, Inc. said, "Our results this quarter reflect the growth we are experiencing in our market segment and a continuation of our operational effectiveness. Our rental and sales growth rates remain vigorous and we anticipate an active year."

The Company has scheduled a conference call Tuesday, May 6, 2008 at 10:00 a.m., Central Daylight Time, to discuss 2008 First Quarter Results.

What: Natural Gas Services Group, Inc. 2008 First Quarter Financial Results Conference Call

When: Tuesday, May 6, 2008 at 10:00 a.m., Central Daylight Time

How: Live via phone by dialing 800-624-7038. Code: Natural Gas Services. Participants to the Conference call should call in at least 5 minutes prior to the start time.

Steve Taylor, President and CEO of Natural Gas Services Group, Inc. will be leading the call and discussing first quarter's financial results.

About Natural Gas Services Group, Inc. (NGS)

NGS is a leading provider of small to medium horsepower, wellhead compression equipment to the natural gas industry with a primary focus on the non-conventional gas industry, i.e., coalbed methane, gas shales and tight gas. The Company manufactures, fabricates, rents and maintains natural gas compressors that enhance the production of natural gas wells. The Company also designs and sells custom fabricated natural gas compressors to particular customer specifications and sells flare systems for gas plant and production facilities. NGS is headquartered in Midland, Texas with manufacturing facilities located in Tulsa, Oklahoma, Lewiston, Michigan and Midland, Texas and service facilities located in major gas producing basins in the U.S.

For More Information, Contact:

Jim Drewitz, Investor Relations

830-669-2466

[jim@jdcreativeoptions.com](mailto:jim@jdcreativeoptions.com)

Or visit the Company's website at [www.ngsgi.com](http://www.ngsgi.com)

“EBITDA” reflects net income or loss before interest, taxes, depreciation and amortization. EBITDA is a measure used by analysts and investors as an indicator of operating cash flow since it excludes the impact of movements in working capital items, non-cash charges and financing costs. Therefore, EBITDA gives the investor information as to the cash generated from the operations of a business. However, EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States of America (“GAAP”), and should not be considered a substitute for other financial measures of performance. EBITDA as calculated by NGS may not be comparable to EBITDA as calculated and reported by other companies. The most comparable GAAP measure to EBITDA is net income. The reconciliation of net income to EBITDA and gross margin is as follows:

| (in thousands of dollars)     | Three months ended March 31, |          |
|-------------------------------|------------------------------|----------|
|                               | 2007                         | 2008     |
| Net income                    | \$ 2,681                     | \$ 3,517 |
| Interest expense              | 300                          | 241      |
| Provision for income taxes    | 1,574                        | 1,928    |
| Depreciation and amortization | 1,717                        | 2,125    |
| EBITDA                        | \$ 6,272                     | \$ 7,811 |
| Other operating expenses      | 1,200                        | 1,350    |
| Other expense (income)        | (352)                        | (233)    |
| Gross margin                  | \$ 7,120                     | \$ 8,928 |

We define gross margin as total revenue less cost of sales (excluding depreciation and amortization expense). Gross margin is included as a supplemental disclosure because it is a primary measure used by our management as it represents the results of revenue and cost of sales (excluding depreciation and amortization expense), which are key components of our operations. Because we use capital assets, depreciation expense is a necessary element of our costs and our ability to generate revenue and selling, general and administrative expense is a necessary cost to support our operations and required corporate activities. Management uses this non-GAAP measure as a supplemental measure to other GAAP results to provide a more complete understanding of our performance. As an indicator of our operating performance, gross margin should not be considered an alternative to, or more meaningful than, net income as determined in accordance with GAAP. Our gross margin may not be comparable to a similarly titled measure of another company because other entities may not calculate gross margin in the same manner.

Except for historical information contained herein, the statements in this release are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which may cause NGS’s actual results in future periods to differ materially from forecasted results. Those risks include, among other things, the loss of market share through competition or otherwise; the introduction of competing technologies by other companies; a prolonged, substantial reduction in oil and gas prices which could cause a decline in the demand for NGS’s products and services; and new governmental safety, health and environmental regulations which could require NGS to make significant capital expenditures. The forward-looking statements included in this press release are only made as of the date of this press release, and NGS undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. A discussion of these factors is included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission.





NATURAL GAS SERVICES GROUP, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands, except per share amounts)  
 (unaudited)

|   | December 31,<br>2007 | March 31,<br>2008 |
|---|----------------------|-------------------|
| <b>ASSETS</b>   |                      |                   |
| Current Assets:   |                      |                   |
| Cash and cash equivalents   | \$ 245               | \$ 2,111          |
| Short-term investments  | 18,661               | 14,348            |
| Trade accounts receivable, net of doubtful<br>accounts of \$110, both periods                   | 11,322               | 10,126            |
| Inventory, net of allowance for obsolescence of<br>\$273 and \$288, respectively                | 20,769               | 24,490            |
| Prepaid income taxes  | 3,584                | —                 |
| Prepaid expenses and other  | 641                  | 203               |
| <b>Total current assets</b>   | <b>55,222</b>        | <b>51,278</b>     |
| Rental equipment, net of accumulated<br>depreciation of \$16,810 and \$18,454,<br>respectively  | 76,025               | 82,175            |
| Property and equipment, net of accumulated<br>depreciation of \$4,792 and \$5,175, respectively | 8,580                | 8,442             |
| Goodwill, net of accumulated amortization of<br>\$325, both periods                             | 10,039               | 10,039            |
| Intangibles, net of accumulated amortization of<br>\$1,145 and \$1,224, respectively            | 3,324                | 3,245             |
| Other assets  | 43                   | 32                |
| <b>Total assets</b>   | <b>\$ 153,233</b>    | <b>\$ 155,211</b> |
| <b>LIABILITIES AND STOCKHOLDERS'<br/>EQUITY</b>   |                      |                   |
| Current Liabilities:  |                      |                   |
| Current portion of long-term debt and<br>subordinated notes                                     | \$ 4,378             | \$ 3,378          |
| Line of credit  | 600                  | —                 |
| Accounts payable  | 4,072                | 6,032             |
| Accrued liabilities   | 3,990                | 3,762             |
| Current income tax liability  | 3,525                | 57                |
| Deferred income   | 81                   | 877               |
| <b>Total current liabilities</b>  | <b>16,646</b>        | <b>14,106</b>     |
| Long term debt, less current portion  | 9,572                | 8,727             |
| Deferred income tax payable   | 12,635               | 14,359            |
| <b>Total liabilities</b>  | <b>38,853</b>        | <b>37,192</b>     |
| Stockholders' equity:   |                      |                   |

Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 8-K

|   |    |         |    |         |
|---|----|---------|----|---------|
| Preferred stock, 5,000 shares authorized, no shares outstanding   |    | —       |    | —       |
| Common stock, 30,000 shares authorized, par value \$0.01; 12,085 and 12,087 shares issued and outstanding, respectively |    | 121     |    | 121     |
| Additional paid-in capital  |    | 83,460  |    | 83,581  |
| Retained earnings   |    | 30,799  |    | 34,317  |
| Total stockholders' equity  |    | 114,380 |    | 118,019 |
| Total liabilities and stockholders' equity  | \$ | 153,233 | \$ | 155,211 |

---

NATURAL GAS SERVICES GROUP, INC.  
 CONDENSED CONSOLIDATED INCOME STATEMENTS  
 (in thousands, except earnings per share)  
 (unaudited)

|  | Three months ended March 31, |          |
|--|------------------------------|----------|
|  | 2007                         | 2008     |
| Revenue:   |                              |          |
| Sales, net   | \$ 9,506                     | \$ 9,626 |
| Rental income  | 6,940                        | 9,010    |
| Service and maintenance income   | 266                          | 297      |
| Total revenue  | 16,712                       | 18,933   |
| Operating costs and expenses:  |                              |          |
| Cost of sales, exclusive of depreciation stated separately below                   | 6,670                        | 6,393    |
| Cost of rentals, exclusive of depreciation stated separately below                 | 2,735                        | 3,404    |
| Cost of service and maintenance, exclusive of depreciation stated separately below | 187                          | 208      |
| Selling, general, and administrative expense                                       | 1,200                        | 1,350    |
| Depreciation and amortization  | 1,717                        | 2,125    |
| Total operating costs and expenses   | 12,509                       | 13,480   |
| Operating income   | 4,203                        | 5,453    |
| Other income (expense):  |                              |          |
| Interest expense   | (300)                        | (241)    |
| Other income   | 352                          | 233      |
| Total other income (expense)   | 52                           | (8)      |
| Income before provision for income taxes   | 4,255                        | 5,445    |
| Provision for income taxes   | 1,574                        | 1,928    |
| Net income   | \$ 2,681                     | \$ 3,517 |
| Earnings per share:  |                              |          |
| Basic  | \$ 0.22                      | \$ 0.29  |
| Diluted  | \$ 0.22                      | \$ 0.29  |
| Weighted average shares outstanding:   |                              |          |
| Basic  | 12,061                       | 12,085   |
| Diluted  | 12,083                       | 12,144   |

NATURAL GAS SERVICES GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands of dollars)  
(unaudited)

|   | Three Months Ended March 31, |                |
|---|------------------------------|----------------|
|   | 2007                         | 2008           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                              |                |
| Net income  | \$ 2,681                     | \$ 3,517       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |                |
| Depreciation and amortization   | 1,717                        | 2,125          |
| Deferred taxes  | (1,479)                      | 5,312          |
| Employee stock options expensed   | 97                           | 95             |
| Gain on sale of property and equipment  | (8)                          | —              |
| Changes in current assets and liabilities:  |                              |                |
| Trade and other receivables   | 2,413                        | 1,196          |
| Inventory and work in progress  | (2,333)                      | (3,721)        |
| Prepaid expenses and other  | (32)                         | 438            |
| Accounts payable and accrued liabilities  | 2,377                        | 1,732          |
| Current tax liability   | 2,012                        | (3,468)        |
| Deferred income   | 534                          | 796            |
| Other   | (42)                         | 18             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>7,937</b>                 | <b>8,040</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                              |                |
| Purchase of property and equipment  | (4,040)                      | (8,064)        |
| Purchase of short-term investments  | (274)                        | (187)          |
| Redemption of short-term investments  | 3,000                        | 4,500          |
| Proceeds from sale of property and equipment                                      | 33                           | —              |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(1,281)</b>               | <b>(3,751)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                              |                |
| Proceeds from line of credit  | —                            | 500            |
| Repayments of long-term debt  | (1,908)                      | (1,845)        |
| Repayments of line of credit  | —                            | (1,100)        |
| Proceeds from exercise of stock options and warrants                              | 109                          | 22             |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                                      | <b>(1,799)</b>               | <b>(2,423)</b> |
| <b>NET CHANGE IN CASH</b>   | <b>4,857</b>                 | <b>1,866</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                           | <b>4,391</b>                 | <b>245</b>     |

|  |    |       |    |       |
|--|----|-------|----|-------|
| CASH AND CASH EQUIVALENTS AT END<br>OF PERIOD        | \$ | 9,248 | \$ | 2,111 |
| SUPPLEMENTAL DISCLOSURE OF CASH<br>FLOW INFORMATION: |    |       |    |       |
| Interest paid  | \$ | 305   | \$ | 290   |
| Income taxes paid                                    | \$ | 999   | \$ | 84    |

---

