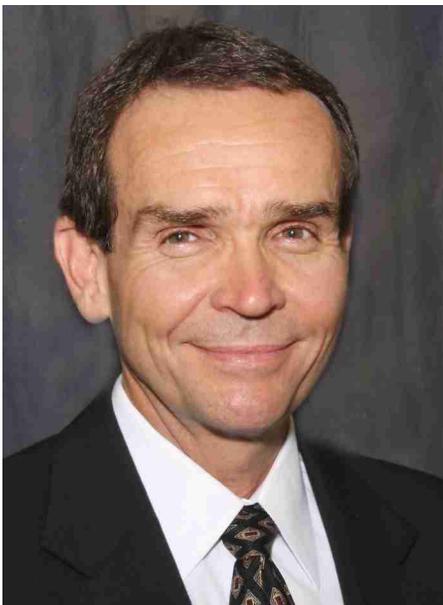


## **Building, Renting and Selling Natural Gas Compressors to Oil Shale and Natural Gas Companies, Natural Gas Services Group continues to maintain a Growing Fleet to Supply these Growing Industries**



**Energy  
 Natural Gas Services**



**Stephen C. Taylor  
 President & CEO**

**BIO:**

Stephen C. Taylor was elected by the Board of Directors of Natural Gas Services Group (NGSG) to assume the position of President and CEO in January, 2005. Immediately prior to joining NGSG, Mr. Taylor held the position of General Manager-US Operations for Trican Production Services, Inc., a Canadian-based pres-

sure pumping company, from 2002 through 2004. Mr. Taylor joined Halliburton Resource Management (Halliburton Company's gas compression division) in 1976 and progressed through numerous engineering, sales and operational positions throughout the U.S. to be its VP-Operations in 1989. In 1993 he transferred to the corporate-entity of Halliburton Energy Services and held multiple senior level management and operational positions, including extensive international travel and responsibilities. In 2000 he was elected Sr. VP/Chief Operating Officer of Enventure Global Technology, LLC, a joint-venture company owned by Halliburton and Shell Oil Company involved in leading-edge deepwater drilling technologies. Mr. Taylor elected early retirement from Halliburton in 2002 to join Trican Production Services, Inc. Mr. Taylor holds a BS degree in mechanical engineering from Texas Tech University and an MBA from The University of Texas in Austin.

**About Natural Gas Services Group (NYSE: NGS):**

Headquartered in Midland, TX, Natural Gas Services Group (NGS) maintains a growing rental fleet of rotary screw and reciprocating wellhead compressors in the 50-500 horsepower range. At the end of 2011 the rental fleet totaled 2120 compressor units...the largest rental compressor fleet in the U.S. dedicated to the small-medium horsepower, wellhead market and the third largest overall. Repair and maintenance services for rental fleet units is provided through a network of district offices in Midland, Bridgeport and Godley, TX, Farming-

ton, NM, Vernal, UT, Tulsa, OK, and Lewiston, MI, including the Appalachian and South Texas areas. Rental compressor fabrication facilities are located in Midland, TX. NGS designs, fabricates and sells custom engineered rotary screw and reciprocating compressor packages through our Engineered Products line in Tulsa, OK. This custom equipment ranges up to 2500 horsepower per unit and can be natural gas engine or electric motor driven. NGS also designs, manufactures and fabricates a proprietary reciprocating compressor product line. The CiP (Cylinders in Plane) reciprocating compressor is a unique and efficient, small horsepower design that is utilized in our rental fleet and sold to compressor packagers, distributors and end-users throughout North America. Additionally, the Company designs, fabricates, sells, installs and services technologically advanced and patented industrial flare and ignition systems through our Flare King product line for use in onshore and offshore oil and natural gas production facilities. NGS is a public company listed on the New York Stock Exchange (NYSE:NGS).

**Interview conducted by:  
 Lynn Fosse, Senior Editor  
 CEOCFO Magazine  
 Published – October 2012**

**CEOCFO:** Mr. Taylor, you have been CEO for a number of years, what have been the biggest changes during your leadership?

**Mr. Taylor:** The biggest changes we've seen have been associated with our growth over the past few

years. We have quadrupled the size of our rental fleet the past seven years and with that the number of employees and associated manufacturing and service requirements. Growing at a 20% plus annual compounded rate takes a lot of planning and execution, but our employees did a great job adapting to that environment. This growth was interrupted in the 2009/2010 time frame due to the great recession and the challenges then were obviously much different, but we emerged in a stronger manner.

**CEO CFO:** What services do you provide today?

**Mr. Taylor:** We build, rent and sell natural gas compressors. This is equipment used in the oil and gas fields that essentially moves the natural gas from the well through pipelines and gathering systems. As the wells come on line, they need some pressure-assist to move through the system, and we provide that equipment and associated services. Our main business is rental of the equipment; we rent it and perform maintenance in the field as an outsourced service. This is a popular option with our customers; the oil and gas operators and producers.

**CEO CFO:** Is this a commodity or are there particular reasons why a company would be renting from you?

**Mr. Taylor:** In some respects, this industry would seem to be more of a commodity, but there is a difference in the equipment and services we provide when compared to others. Our equipment is purpose-built for the production of shale gas reserves. I think everybody is now familiar with shale gas and the vigorous growth in those reserves over the past few years, and this is what has driven our activity. We designed our equipment to serve the particular needs of this market, that being requirements for smaller footprints on locations, lighter equipment that can be moved in and out of a location easily, and natural gas engines that are environmentally compliant. We have also incorporated some technological advancements into our equipment that ensure a

higher level of runtime for our customers.

**CEO CFO:** Do your customers understand and know the difference?

**Mr. Taylor:** They do because although we rent and maintain the equipment, our customers operate it on a daily basis. They are integrally involved in the operational aspects of the equipment and see the differences that our designs bring to their bottom-lines.

**CEO CFO:** Given the ebb and flow of the business, how do you know when to build more equipment and add to your availability?

**Mr. Taylor:** We have a sales force that is very good at identifying customers and their requirements and we are constantly receiving and revising forecasts. Along with this, we know the utilization of each model in our fleet and use that as a guide for our

**“From the perspective of how we continue to grow, we continue to see many opportunities going forward. Our traditional business is strong and growing and we anticipate additional product and geographic expansion in the future.”-Stephen C. Taylor**

manufacturing activities. During the period leading up to 2008 when things were very busy, we built the majority of our equipment on speculation. We knew the customers and areas that needed equipment, but we didn't have specific contracts for it until we rented it. It was that busy and we knew who would need that equipment. After the recession and with a much more opaque view of the future, we started requiring an executed contract before we would build equipment. That is still largely our mode, although we do have some spec builds that we do for highly utilized equipment or to supply particular customers. We typically place capital equipment orders every month to keep as current as possible with market requirements and any changes that might occur. One thing that complicates our manufacturing schedule is extended deliveries for material goods, and we have to look into our crystal ball at times to help estimate some of our future requirements.

**CEO CFO:** How far in advance do people order and how long does it take you to get the equipment built and ready?

**Mr. Taylor:** The full cycle from the time a customer says he wants a gas compressor to when we can deliver it to his wellhead location is a minimum of four to five months for 'standard' type equipment and can stretch to double that for specialized compressor packages. Delivery of major components is getting longer and that is the primary supply-chain challenge we have now.

**CEO CFO:** Are there particular geographic areas where you prefer to focus?

**Mr. Taylor:** We do concentrate in certain areas. We are very big in the original gas shale; that being the Barnett Shale in north-central Texas and also in the San Juan Basin in the Four Corners area of northwest New Mexico. Those were the first areas the company started in years ago, and we have maintained a good share and base there over time. We have additional operations from northern Michigan to south Texas, up to north-east Utah in the Rockies

and over to the Appalachian Basin. Those have been the traditional gas shale areas, but the growing activity over the last couple of years has been more oriented towards oil shales. As you know, natural gas prices are at a historically low level and the attendant activity there was not growing as fast as we wanted so we shifted our emphasis towards oil shale production. We are now building equipment for the oil shales, and that has pulled us into other areas such as northern Colorado, eastern Ohio and North Dakota.

**CEO CFO:** Is everybody aware of you now or do you have to make sales efforts?

**Mr. Taylor:** We are getting to be better known as we have grown and we, in fact, now have the third largest gas compressor rental fleet in the US with over 2200 units. We have a sales force and numerous service people stationed in the major operating ba-

sins around the US and that presence helps with our exposure, but this is a service-oriented type of business. We often say that the sales force gets the first piece of business, but that it is the service personnel that maintain and build on it. From the sales perspective we stay aware of who is drilling, who is operating and who may need some equipment, but it is sometimes just the old-fashioned pound the pavement and knock on doors approach.

**CEOCFO:** Are there any types of equipment that you would like to offer which you do not offer now?

**Mr. Taylor:** Our main growth from a product standpoint is going to be providing some larger horsepower offerings. We now concentrate in the small and medium horsepower range, but we are presently designing and will be prototyping a 400-500 horsepower compressor within the next six to twelve months. We design and build our own high-pressure compressors so we have a step-up on the competition from a supply chain standpoint and are a little more integrated vertically.

**CEOCFO:** Natural Gas Services Group had good results your last quarter, would you tell us more about the financial position and how you continue the good growth?

**Mr. Taylor:** From an income statement standpoint, we typically run some of the highest if not the highest margins in the business. Our gross margins on rentals will run in the 60% range and we typically run 13% to 15% net income margins. EBITDA will range from 40% to -50% of revenue so with the revenue dollar we bring in almost half of it is getting converted to cash. We have a good operation and great field managers who watch their costs and know how to run their areas efficiently. In 2011 versus 2010, we grew top line about 20% and bottom line was up between thirty to forty percent depending on which bottom line you are looking at; operating income, net income, or EBITDA. Balance sheet wise, we are very strong and have \$30 million on the balance sheet and less than a million dollars of debt. We have a \$50 million credit line with a major New York bank and a large shelf offering filed so our liquidity is enviable. This is one of the areas we came through the downturn very strong in and that is the amount of cash we generated. From the perspective of how we continue to grow, we continue to see many opportunities going forward. Our traditional business is strong and growing and we anticipate additional product and geographic expansion in the future. As noted, we have a strong cash position that will be used to continue to

build the rental fleet and finance further expansion.

**CEOCFO:** Why should investors pay attention to Natural Gas Services Group?

**Mr. Taylor:** We have done very well from a top and bottom line growth perspective coming out of the recession-and we are continuing our growth. The oil shales have provided most of our activity the past 2-3 years, but we also anticipate that natural gas prices will improve over the next 12-18 months and that will be additional opportunity to expand the gas shale part of the business. Our officers and managers each typically have twenty years plus experience in the business, so we pretty well know where the market is and where it is going. We were one of the initial players in the gas shales and have been first movers in the shift to oil shales and can usually move into an area and garner appreciable share in a relatively short period of time. This is a capital intensive business that relies on a high level of execution and we have proven our ability, in good times and bad, to deliver superior results. The trend in our markets is up, and we think we will be able to continue to outperform our peers.



**Natural Gas Services Group, Inc.**  
**508 W. Wall Suite 550**  
**Midland, TX 79701**  
**432-262-2700**  
**[www.ngsig.com](http://www.ngsig.com)**