

Edgar Filing: NATURAL GAS SERVICES GROUP INC - Form 10QSB

NATURAL GAS SERVICES GROUP INC  
Form 10QSB  
May 13, 2004

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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 March 31, 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 than 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  
--- ---

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 March 31, 2004
----- Common Stock, \$.001 par value	----- 5,379,835 -----



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Prepaid expenses		160,042
		-----
Total current assets		6,168,910
Lease equipment, net		\$20,942,965
Other property, plant and equipment, net		2,873,796
Goodwill, net		2,589,655
Patents, net		107,070
Other assets		103,400
		-----
Total assets		\$32,785,796
		=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long term debt and capital lease		\$ 2,480,677
Line of Credit		119,251
Accounts payable and accrued liabilities		2,285,024
Unearned Income		3,111
		-----
Total current liabilities		4,888,063
Long term debt and capital lease, less current portion		8,063,394
Subordinated notes, net		1,425,583
Deferred income tax payable		2,094,204
		-----
Total liabilities		16,471,244
SHAREHOLDERS' EQUITY		
Common stock		53,798
Paid in capital		11,228,899
Retained earnings		5,031,855
		-----
Total shareholders' equity		16,314,552
		-----
Total liabilities and shareholders' equity		\$32,785,796
		=====

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

1

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

	Three months ended March 31,	
	-----	
	2004	2003
	-----	
Revenue:		
Sales	\$ 889,965	\$ 565,272
Service and maintenance income	423,602	377,310
Leasing income	2,254,784	1,401,163
	-----	-----
	3,568,351	2,343,745
Cost of revenue:		

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Cost of sales	646,394	433,173
Cost of service and maintenance	336,250	335,301
Cost of leasing	568,409	360,917
	-----	-----
	1,551,053	1,129,391
	-----	-----
Gross Margin	2,017,298	1,214,354
Operating Cost:		
Selling expense	177,389	138,947
General and administrative expense	488,259	380,166
Depreciation and amortization	526,685	361,966
	-----	-----
	1,192,334	881,079
	-----	-----
Operating income	824,964	333,275
Interest expense	(180,608)	(154,083)
Other income	1,501,081	22,547
	-----	-----
Income before income taxes	2,145,437	201,739
Provision for income tax	251,698	83,856
	-----	-----
Net income	1,893,739	117,883
Preferred dividends	27,922	31,010
	-----	-----
Net income available to common shareholders	\$ 1,865,817	\$ 86,873
	=====	=====
Earnings per share:		
Basic	\$ 0.37	\$ 0.02
Diluted	\$ 0.36	\$ 0.02
Weighted average Shares:		
Basic	5,065,327	4,857,632
Diluted	5,221,441	5,059,456

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

2

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

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 1,893,739	\$ 117,883
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	526,686	361,966
Deferred taxes	251,698	83,856

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Amortization of debt issuance costs	16,239	16,
Gain on disposal of assets	--	(14,
Changes in operating assets and liabilities:		
Trade and other receivables	(232,493)	(335,
Accounts receivable - other	(1,500,000)	-
Inventory	(709,403)	(658,
Prepaid expenses and other	(53,012)	128,
Accounts payable and accrued liabilities	1,213,472	146,
Deferred income	(204,104)	106,
Other	3,273	(85,
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,206,095	(133,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,530,447)	(3,143,
Distribution from equity method investment	--	291,
Proceeds from sale of property and equipment	--	105,
Decrease in lease receivable	--	23,
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(2,530,447)	(2,723,
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from bank loans and line of credit	1,952,778	2,225,
Repayments of long term debt	(604,143)	(440,
Proceeds from warrants exercised	23,575	-
Dividends paid on preferred stock	(27,922)	(31,
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,344,288	1,754,
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,936	(1,102,
CASH AT BEGINNING OF PERIOD	176,202	2,713,
	-----	-----
CASH AT END OF PERIOD	\$ 196,138	\$ 1,611,
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 180,608	\$ 154,

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited financial statements present the

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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 March 31, 2004 and the results of our operations for the three months periods ended March 31, 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 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 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 three months ended March 31, 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 proscribed 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 March 31,	
	2004	2003
Pro forma impact of fair value method		
Net income available to common shareholders, as reported	\$ 1,865,817	\$ 86,8
Pro-forma stock-based compensation costs under the fair value method, net of related tax	(10,000)	(7,6
Pro-forma income applicable to common shares under the fair-value method	1,855,817	79,1
Earnings per common share		
Basic earnings per share reported	0.37	0.
Diluted earnings per share reported	0.36	0.
Pro-forma basic earnings per share under the fair value method	0.37	0.
Pro-forma diluted earnings per share under the fair value method	0.36	0.

Weighted average Black-Scholes fair value assumptions:

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Risk free rate	4.0%-5.2%	4.0%-5.2%
Expected life	5-10 yrs	5-10 yrs
Expected volatility	44%	50%
Expected dividend yield	0.0%	0%

### (3) Merger

On January 1, 2004, we merged our subsidiaries, Rotary Gas Systems Inc, NGE Leasing Inc, and Great Lakes Compression Inc. with the 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) Earnings per common share

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

	Three Months Ended March 31,	
	2004	2003
Basic earnings per share Numerator:		
Net income	\$ 1,893,739	\$ 117,883
Less: dividends on preferred shares	(27,922)	(31,010)
Net income available to common shareholders	\$ 1,865,817	\$ 86,873
Denominator -		
Weighted average common shares outstanding	5,065,327	4,857,632
Basic earnings per share	\$ 0.37	\$ 0.02
Diluted earnings per share Numerator:		
Net income	\$ 1,893,739	\$ 117,883
Less: dividends on preferred shares (1)	(27,922)	(31,010)
Net income available to common shareholders	\$ 1,865,817	\$ 86,873

Denominator :

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Weighted average common shares outstanding	5,065,327	4,857,632
Dilutive effect of common stock options and warrants	156,114	201,824
Conversion of preferred shares (1)	--	--
	-----	-----
	5,221,441	5,059,456
	=====	=====
Diluted earnings per share	\$ 0.36	\$ 0.02
	=====	=====

(1) Preferred shares were anti-dilutive for the three months ended March 31, 2004 and 2003

### (6) 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. At March 31, 2004, the amounts were recorded in Accounts Receivable-other. The proceeds were received in April 2004.

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## 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



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manufacture, sale and rental of flares and flare ignition systems for plant and production facilities. On January 1, 2004, we merged our subsidiaries into us.

### Critical Accounting Policies and New Accounting Pronouncements

See our December 31, 2003 Form 10-KSB 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 March 31, 2004, we had cash and cash equivalents of approximately \$196,000, working capital of \$1,281,000 and non-subordinated debt of \$10,544,000 of which approximately \$2,481,000 was classified as current. We had positive net cash flow from operating activities of approximately \$1,206,000 during the first three months of 2004. This was primarily from net income of \$1,894,000 plus depreciation and amortization of \$527,000, an increase in deferred taxes of \$252,000, an increase in accounts payable and accrued liabilities of \$1,213,000, offset by an increase in accounts receivable-other of \$1,500,000, an increase in accounts receivable-trade of \$232,000, a decrease in deferred income of \$204,000, and an increase in inventory of \$709,000.

Our line of credit for \$750,000 with interest at 1% over prime for one year expired March 15, 2004 but was extended until June 15, 2004. Funds have been drawn under the line of credit as of March 31, 2004 totaling \$119,251.

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. As a result the conversion we will have a reduction in expected dividend payments of approximately \$75,000 for the remainder of the year 2004.

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 March 31, 2004 totaling \$2,865,000.

### Results of Operations

Sales revenue from outside sources increased from \$565,000 to \$890,000, or 58% for the three months ended March 31, 2004 compared to the same period ended March 31, 2003. This increase was mainly the result of an improvement in the sale of compressors and flare units compared to the same period in 2003. Because our products are custom-built, fluctuations in revenue from outside sources is not unusual.

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[GRAPHIC OMITTED]

Service and maintenance revenue increased from \$377,000 to \$424,000, or 12% for the three months ended March 31, 2004 compared to the same period ended March 31, 2003.

Leasing revenue increased from \$1,401,000 to \$2,255,000, or 61% for the three months ended March 31, 2004 compared to the same period ended March 31, 2003. This increase was the result of additional units added to our rental unit fleet and leased to third parties. The company ended the quarter with 444 compressor packages in its rental fleet, up from 399 units at December 31, 2003 and 348 units at March 31, 2003.

[GRAPHIC OMITTED]

The gross margin percentage increased from 52% for the three months ended March 31, 2003, to 57% for the same period ended March 31, 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 increases in rented units improve our gross margin.

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Selling, general and administrative expense increased from \$519,000 to \$666,000 or 28% for the three months ended March 31, 2003, as compared to the same period ended March 31, 2004. This was mainly the result of the increase in commissions from additional leasing contracts on gas compressors to third parties and legal expenses related to an internal investigation that was settled in April 2004.

Depreciation and amortization expense increased 46% from \$362,000 to \$527,000 for the three months ended March 31, 2003, compared to the same period ended March 31, 2004. This increase was the result of 96 new gas compressor rental units being added to rental equipment from March 31, 2003 to March 31, 2004.

Other income increased approximately \$1,479,000 for the three months

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ended March 31, 2004 compared to the same period ended March 31, 2003. This increase was due to the receipt of \$1,500,000 in life insurance payable on 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. These amounts were recorded as accounts receivable-other at March 31, 2004 and were received in April 2004.

There was a slight increase in interest expense for the three months ended March 31, 2004 compared to the same period ended March 31, 2003, mainly due to the new loan balances on vehicles and rental equipment.

Provision for income tax increased \$168,000, or 200%, 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.

### 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-14(c) 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 significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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## 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.

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### Item 5. Other Information

The Nominating Committee of our Board of Directors will consider a candidate for director proposed by a stockholder. A candidate must be highly qualified in terms of business experience and be both willing and expressly interested in serving on the Board. A stockholder wishing to propose a candidate for the Committee's consideration should forward the candidate's name and information about the candidate's qualifications to Natural Gas Services Group, Inc., Nominating Committee, 2911 South County Road 1260, Midland, Texas 79706, Attn.: Charles G. Curtis, Chairman. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment history for at least the past five years indicating employer's names and description of the employer's business, educational background and any other biographical information that would assist the Committee in determining the qualifications of the individual. The Committee will consider recommendations received by a date not later than 120 calendar days before the date our proxy statement was released to shareholders in connection with the prior year's annual meeting for nomination at that annual meeting. The Committee will consider nominations received beyond that date at the annual meeting subsequent to the next annual meeting.

The Committee evaluates nominees for directors recommended by stockholders in the same manner in which it evaluates other nominees for directors. Minimum qualifications include the factors discussed above.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

Exhibit No. -----	Description -----
2.1	Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc.(2)
3.1	Articles of incorporation.(3)
3.2	Amendment to articles of incorporation dated March 31, 1999, and filed on May 25, 1999.(3)
3.3	Amendment to articles of incorporation dated July 25, 2001, and filed on July 30, 2001.(3)
3.4	Amendment to articles of incorporation dated June 18, 2003, and filed on June 19, 2003.(3)

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Exhibit No. -----	Description -----
3.5	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging NGE Leasing, Inc into Natural Gas Services Group, Inc.(6)
3.6	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Rotary Gas Systems, Inc. into Natural Gas Services Group, Inc.(6)

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- 3.7 Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Great Lakes Compression, Inc. into Natural Gas Services Group, Inc.(6)
- 3.8 Bylaws.(3)
- 4.1 Form of warrant certificate.(3)
- 4.2 Form of warrant agent agreement.(3)
- 4.3 Form of lock-up agreement.(3)
- 4.4 Form of representative's option for the purchase of common stock.(3)
- 4.5 Form of representative's option for the purchase of warrants.(3)
- 10.1 1998 Stock Option Plan.(3)
- 10.2 Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)
- 10.3 Amendment to Guaranty Agreement between Natural Gas Services Group, Inc. and Dominion Michigan Production Services, Inc.(3)
- 10.4 Form of Series A 10% Subordinated Notes due December 31, 2006.(3)
- 10.5 Form of Five-Year Warrants to Purchase Common Stock.(3)
- 10.6 Warrants issued to Berry-Shino Securities, Inc.(3)
- 10.7 Warrants issued to Neidiger, Tucker, Bruner, Inc.(3)
- 10.8 Form of warrant issued in March 2001 for guaranteeing debt.(3)
- 10.9 Form of warrant issued in April 2002 for guaranteeing debt.(3)
- 10.10 Exhibits 3(c)(1), 3(c)(2), 3(c)(3), 3(1)(4), 13(d)(1), 13(d)(2) and 13(d)(3) to Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)
- 10.11 Articles of Organization of Hy-Bon Rotary Compression, L.L.C. dated April 17, 2000 and filed on April 20, 2001.(3)
- 10.12 Regulations of Hy-Bon Rotary Compression, L.L.C.(3)
- 10.13 First Amended and Restated Loan Agreement between Natural Gas Services Group, Inc. and Western National Bank(4)
- 10.14 Termination of Employment Agreement Letter relating to the Employment Agreement of Alan Kurus(5)

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Exhibit No.	Description
10.15	Termination of Employment Agreement Letter relating to the Employment Agreement of Wayne Vinson(5)
10.16	Termination of Employment Agreement Letter relating to the Employment Agreement of Earl R. Wait(5)
10.17	Lease Agreement dated June 1, 2003 with Steven J. & Katherina L. Winer(6)
10.18	Lease Agreement dated June 19, 2003 with Wise Commercial Properties(6)
31.1	Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)
32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)

- (1) Filed herewith.
- (2) Exhibit 2.1 is incorporated by reference to Exhibit 2.1 filed as an exhibit to our Current Report on Form 8-K dated February 28, 2003
- (3) Exhibits 3.1 through 3.4 and 3.8 through 10.12 are incorporated by reference to the exhibits filed as exhibits to our Registration Statement No. 333-88314
- (4) Exhibit 10.13 is incorporated by reference to our Current Report on Form 8-K filed on April 14, 2003
- (5) Exhibits 10.14, 10.15 and 10.16 are incorporated by reference to exhibits 10.25, 10.26 and 10.27 to our Annual Report on Form 10-KSB for the year ended December 31, 2002
- (6) Exhibits 3.5, 3.6, 10.17, and 10.18 are incorporated by reference to the same exhibits filed with our Annual Report on Form 10-KSB for the year ended December 31, 2003.

(b) Reports on Form 8-K

On March 11, 2004, under Items 7 and 12 of Form 8-K, we filed our earnings press release which announced our financial results for the quarter and year ended December 31, 2003.

On March 16, 2004, under Item 5 of Form 8-K, we announced that our President and Chief Executive Officer, Wayne L. Vinson, passed away and that Wallace C. Sparkman had been appointed as interim Chief Executive Officer.

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

May 12, 2004

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- (1) Filed herewith.
- (2) Exhibit 2.1 is incorporated by reference to Exhibit 2.1 filed as an exhibit to our Current Report on Form 8-K dated February 28, 2003
- (3) Exhibits 3.1 through 3.4 and 3.8 through 10.12 are incorporated by reference to the exhibits filed as exhibits to our Registration Statement No. 333-88314
- (4) Exhibit 10.13 is incorporated by reference to our Current

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Report on Form 8-K filed on April 14, 2003

- (5) Exhibits 10.14, 10.15 and 10.16 are incorporated by reference to exhibits 10.25, 10.26 and 10.27 to our Annual Report on Form 10-KSB for the year ended December 31, 2002
- (6) Exhibits 3.5, 3.6, 10.17, and 10.18 are incorporated by reference to the same exhibits filed with our Annual Report on Form 10-KSB for the year ended December 31, 2003.