

Delek US Holdings, Inc.
Form 10-Q
August 05, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2011

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 001-32868
DELEK US HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
Incorporation or organization)*

52-2319066
*(I.R.S. Employer
Identification No.)*

**7102 Commerce Way
Brentwood, Tennessee**
(Address of principal executive offices)

37027
(Zip Code)

(615) 771-6701

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

At July 29, 2011, there were 57,984,567 shares of common stock, \$0.01 par value, outstanding.

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Part I.
FINANCIAL INFORMATION

Item 1. Financial Statements

Delek US Holdings, Inc.
Condensed Consolidated Balance Sheets (Unaudited)

| | June 30, | December 31, | |
|--|----------------------------|---------------------|--|
| | 2011 | 2010 | |
| | (In millions, except share | | |
| | and per share data) | | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 148.2 | \$ 49.1 | |
| Accounts receivable | 390.0 | 104.7 | |
| Inventory | 395.1 | 136.7 | |
| Other current assets | 26.3 | 8.9 | |
| Total current assets | 959.6 | 299.4 | |
| Property, plant and equipment: | | | |
| Property, plant and equipment | 1,184.9 | 886.7 | |
| Less: accumulated depreciation | (230.4) | (206.6) | |
| Property, plant and equipment, net | 954.5 | 680.1 | |
| Goodwill | 71.9 | 71.9 | |
| Other intangibles, net | 18.5 | 7.9 | |
| Minority investment | | 71.6 | |
| Other non-current assets | 21.9 | 13.7 | |
| Total assets | \$ 2,026.4 | \$ 1,144.6 | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 419.6 | \$ 222.9 | |
| Current portion of long-term debt and capital lease obligations | 24.6 | 14.1 | |
| Current note payable to related party | 6.0 | | |
| Accrued expenses and other current liabilities | 175.3 | 55.5 | |
| Total current liabilities | 625.5 | 292.5 | |
| Non-current liabilities: | | | |
| Long-term debt and capital lease obligations, net of current portion | 350.5 | 237.7 | |
| Note payable to related party | 78.0 | 44.0 | |
| Obligation under Supply and Offtake Agreement | 242.7 | | |
| Environmental liabilities, net of current portion | 10.4 | 2.8 | |
| Asset retirement obligations | 7.7 | 7.3 | |
| Deferred tax liabilities | 104.6 | 105.9 | |
| Other non-current liabilities | 24.1 | 11.1 | |

| | | |
|--|------------|------------|
| Total non-current liabilities | 818.0 | 408.8 |
| Shareholders' equity: | | |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding | | |
| Common stock, \$0.01 par value, 110,000,000 shares authorized, 57,870,853 shares and 54,403,208 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively | 0.6 | 0.5 |
| Additional paid-in capital | 336.2 | 287.5 |
| Accumulated other comprehensive income | (2.0) | |
| Retained earnings | 222.8 | 155.3 |
| Non-controlling interest in subsidiaries | 25.3 | |
| Total shareholders' equity | 582.9 | 443.3 |
| Total liabilities and shareholders' equity | \$ 2,026.4 | \$ 1,144.6 |

See accompanying notes to the condensed consolidated financial statements

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Delek US Holdings, Inc.
Condensed Consolidated Statements of Operations (Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---|----------------|-------------------------|----------------|
| | June 30, | | June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| | (In millions, except share and per share data) | | | |
| Net sales | \$ 1,848.7 | \$ 997.7 | \$ 2,992.2 | \$ 1,890.6 |
| Operating costs and expenses: | | | | |
| Cost of goods sold | 1,632.9 | 895.1 | 2,647.1 | 1,715.8 |
| Operating expenses | 83.2 | 55.8 | 143.4 | 111.9 |
| Insurance proceeds – business interruption | | (12.8) | | (12.8) |
| Property damage proceeds, net | | (4.2) | | (4.0) |
| General and administrative expenses | 24.8 | 14.8 | 43.1 | 30.1 |
| Depreciation and amortization | 18.4 | 16.0 | 33.3 | 30.5 |
| Loss on sale of assets | 1.4 | 0.6 | 2.0 | 0.1 |
| Total operating costs and expenses | 1,760.7 | 965.3 | 2,868.9 | 1,871.6 |
| Operating income | 88.0 | 32.4 | 123.3 | 19.0 |
| Interest expense | 15.0 | 8.8 | 22.3 | 17.5 |
| Gain on investment in Lion Oil | (9.2) | | (9.2) | |
| Total non-operating expenses | 5.8 | 8.8 | 13.1 | 17.5 |
| Income before income taxes | 82.2 | 23.6 | 110.2 | 1.5 |
| Income tax expense | 26.2 | 8.6 | 37.3 | 0.6 |
| Net income | 56.0 | 15.0 | 72.9 | 0.9 |
| Net income attributed to non-controlling interest | 1.1 | | 1.1 | |
| Net income attributable to Delek | \$ 54.9 | \$ 15.0 | \$ 71.8 | \$ 0.9 |
| | | | | |
| Basic earnings per share | \$ 0.97 | \$ 0.28 | \$ 1.30 | \$ 0.02 |
| Diluted earnings per share | \$ 0.96 | \$ 0.28 | \$ 1.29 | \$ 0.02 |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic | 56,788,169 | 54,350,910 | 55,364,685 | 54,136,963 |
| Diluted | 57,263,271 | 54,370,369 | 55,634,896 | 54,162,790 |
| | | | | |
| Dividends declared per common share outstanding | \$ 0.0375 | \$ 0.0375 | \$ 0.075 | \$ 0.075 |

See accompanying notes to the condensed consolidated financial statements

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Delek US Holdings, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)

| | Six Months Ended June 30, | |
|---|---|-------------|
| | 2011 | 2010 |
| | (In millions, except per share data) | |
| Cash flows from operating activities: | | |
| Net income | \$ 72.9 | \$ 0.9 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 33.3 | 30.5 |
| Amortization of deferred financing costs | 3.2 | 3.5 |
| Accretion of asset retirement obligations | 0.3 | 0.3 |
| Deferred income taxes | 20.6 | (1.1) |
| Gain on investment in Lion Oil | (9.2) | |
| Loss on sale of assets | 2.0 | 0.1 |
| Gain on involuntary conversion of assets | | (4.0) |
| Stock-based compensation expense | 1.0 | 1.9 |
| Income tax benefit of stock-based compensation | (2.2) | (2.2) |
| Changes in assets and liabilities, net of acquisitions: | | |
| Accounts receivable, net | (265.3) | (32.5) |
| Inventories and other current assets | (50.2) | 25.5 |
| Accounts payable and other current liabilities | 50.9 | 28.3 |
| Non-current assets and liabilities, net | (3.3) | (1.1) |
| Net cash (used in) provided by operating activities | (146.0) | 50.1 |
| Cash flows from investing activities: | | |
| Business combination – Lion Acquisition | (80.9) | |
| Purchases of property, plant and equipment | (25.6) | (24.6) |
| Expenditures to rebuild refinery | | (0.2) |
| Proceeds from sales of convenience store assets | 2.8 | 5.5 |
| Property damage insurance proceeds | | 4.2 |
| Net cash used in investing activities | (103.7) | (15.1) |
| Cash flows from financing activities: | | |
| Proceeds from long-term revolvers | 331.4 | 372.7 |
| Payments on long-term revolvers | (351.1) | (368.5) |
| Proceeds from term debt | 140.5 | |
| Payments on term debt and capital lease obligations | (7.5) | (21.3) |
| Proceeds from inventory financing agreement | 242.7 | |
| Proceeds from exercise of stock options | 1.3 | |
| Taxes paid in connection with settlement of share purchase rights | | (2.5) |
| Income tax benefit of stock-based compensation | 2.2 | 2.2 |
| Dividends paid | (4.3) | (4.2) |
| Deferred financing costs paid | (6.4) | (8.9) |
| Net cash provided by (used in) financing activities | 348.8 | (30.5) |

| | | |
|--|----------|---------|
| Net increase in cash and cash equivalents | 99.1 | 4.5 |
| Cash and cash equivalents at the beginning of the period | 49.1 | 68.4 |
| Cash and cash equivalents at the end of the period | \$ 148.2 | \$ 72.9 |

Supplemental disclosures of cash flow information:

Cash paid during the period for:

| | | |
|---|---------|---------|
| Interest, net of capitalized interest of a nominal amount in both the 2011 and 2010 periods | \$ 15.6 | \$ 11.6 |
|---|---------|---------|

| | | |
|--------------|--------|--------|
| Income taxes | \$ 0.7 | \$ 1.6 |
|--------------|--------|--------|

Non-cash financing activities:

| | | |
|--|---------|----|
| Stock issued in connection with the Lion Acquisition | \$ 44.3 | \$ |
|--|---------|----|

See accompanying notes to the condensed consolidated financial statements

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Delek US Holdings, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization and Basis of Presentation

Delek US Holdings, Inc. (Delek , we , our or us) is the sole shareholder of MAPCO Express, Inc. (Express), M Fleet, Inc. (Fleet), Delek Refining, Inc. (Refining), Delek Finance, Inc. (Finance) and Delek Marketing & Supply, Inc. (Marketing) and the majority shareholder of Lion Oil Company (Lion Oil) (collectively, the Subsidiaries).

We are a Delaware corporation formed in connection with our acquisition in May 2001 of 198 retail fuel and convenience stores from a subsidiary of the Williams Companies. Since then, we have completed several other acquisitions of retail fuel and convenience stores. In April 2005, we expanded our scope of operations to include complementary petroleum refining and wholesale and distribution businesses by acquiring a refinery in Tyler, Texas. We initiated operations of our marketing segment in August 2006 with the purchase of assets from Pride Companies LP and affiliates. Delek and Express were incorporated during April 2001 in the State of Delaware. Fleet, Refining, Finance, and Marketing were incorporated in the State of Delaware during January 2004, February 2005, April 2005 and June 2006, respectively.

In 2007, Delek acquired approximately 34.6% of the issued and outstanding shares of common stock of Lion Oil, a privately held Arkansas corporation. In April 2011, Delek acquired an additional 53.7% of the issued and outstanding shares of common stock, par value \$0.10 per share (the Lion Shares), of Lion Oil from Ergon, Inc. (Ergon), the former majority shareholder, bringing Delek 's interest in Lion Oil to 88.3%. Delek reports Lion Oil as part of its consolidated group. See Note 3 for discussion of this transaction.

Delek is listed on the New York Stock Exchange (NYSE) under the symbol DK. As of June 30, 2011, approximately 68.7% of our outstanding shares were beneficially owned by Delek Group Ltd. (Delek Group) located in Natanya, Israel.

The condensed consolidated financial statements include the accounts of Delek and its wholly-owned subsidiaries. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted, although management believes that the disclosures herein are adequate to make the financial information presented not misleading. Our unaudited condensed consolidated financial statements have been prepared in conformity with GAAP applied on a consistent basis with those of the annual audited financial statements included in our Annual Report on Form 10-K and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2010 included in our Annual Report on Form 10-K filed with the SEC on March 11, 2011.

In the opinion of management, all adjustments necessary for a fair presentation of the financial position and the results of operations for the interim periods have been included. All significant intercompany transactions and account balances have been eliminated in consolidation. All adjustments are of a normal, recurring nature. Operating results for the interim period should not be viewed as representative of results that may be expected for any future interim period or for the full year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Explosion and Fire at the Tyler, Texas Refinery

On November 20, 2008, an explosion and fire occurred at our 60,000 barrels per day (bpd) refinery in Tyler, Texas. Some individuals have claimed injury and two of our employees died as a result of the event. The event caused damage to both our saturates gas plant and naphtha hydrotreater and resulted in an immediate suspension of our refining operations. The Tyler refinery was subject to a gradual, monitored restart in May 2009, culminating in a full resumption of operations on May 18, 2009. We settled all outstanding property damage and business interruption insurance claims in the second quarter 2010.

Table of Contents**3. Lion Oil Acquisition**

In 2007, Delek acquired approximately 34.6% of the issued and outstanding shares of common stock of Lion Oil.

In April 2011, Delek acquired an additional 53.7% of the Lion Shares from Ergon (the Lion Acquisition), bringing Delek's interest in Lion Oil to 88.3%. Lion Oil owns the following assets: an 80,000 bpd refinery located in El Dorado, Arkansas; the 80-mile Magnolia crude oil transportation system that runs between Shreveport, Louisiana and the Magnolia crude terminal; the 28-mile El Dorado crude oil transportation system that runs from the Magnolia terminal to the El Dorado refinery, as well as two associated product pipelines; a crude oil gathering system with approximately 600 miles of operating pipeline; and light product distribution terminals located in Memphis and Nashville, Tennessee. The distribution terminals located in Tennessee supply products to some of Delek's convenience stores in the Memphis and Nashville markets.

Upon acquiring a majority equity ownership position in Lion Oil, Delek assumed operational management of Lion Oil and its related assets. Delek now reports Lion Oil as part of its consolidated group. Transaction costs associated with the Lion Acquisition were \$2.6 million and \$4.7 million, respectively, during the three and six months ended June 30, 2011 and were recognized in general and administrative expenses in the accompanying condensed consolidated statements of operations.

As of December 31, 2010, Delek carried its investment in Lion Oil at \$71.6 million, using the cost method of accounting. We recognized a gain of \$9.2 million as a result of remeasuring the 34.6% cost basis interest in Lion Oil at its fair value as of the Lion Acquisition date in accordance with ASC 805, *Business combinations*. This remeasurement was derived from the consideration transferred in the Lion Acquisition. This gain was recognized in the condensed consolidated statements of operations for the three and six months ended June 30, 2011. The acquisition-date fair value of the previous cost basis interest was \$80.8 million and is included in the measurement of the consideration transferred.

The components of the consideration transferred were as follows:

| | | | |
|--|-----------|----|-------|
| Cash paid to Ergon | | \$ | 80.9 |
| Delek restricted common stock issued to Ergon | 3,292,844 | | |
| Average price per share of Delek stock on April 29, 2011 | \$ 13.45 | | |
| Total value of common stock consideration | | | 44.3 |
| Fair value of Delek investment prior to the Lion Acquisition | | | 80.8 |
| | | \$ | 206.0 |

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The preliminary allocation of the purchase price was based upon a preliminary valuation. Our estimates and assumptions are subject to change during the purchase price allocation period. The primary areas of the purchase price allocation that are not yet finalized relate to property, plant and equipment values, the valuation of intangible assets acquired, certain legal matters, and income taxes. The preliminary allocation of the aggregate purchase price of Lion Oil is summarized as follows (in millions):

| | |
|--|----------|
| Inventory | \$ 222.6 |
| Accounts receivable and other current assets | 20.6 |
| Property, plant and equipment | 286.2 |
| Intangible assets | 11.3 |
| Other non-current assets | 26.1 |
| Accounts payable and other current liabilities | (263.8) |
| Long-term note to Ergon | (50.0) |
| Asset retirement obligations and environmental liabilities | (9.9) |
| Other liabilities | (12.9) |
| | 230.2 |
| Fair value of non-controlling interest in Lion Oil | (24.2) |
| Net fair value of equity acquired | \$ 206.0 |

Certain liabilities recorded in the Lion Acquisition relate to accruals for possible loss contingencies associated with two pending lawsuits, which are discussed more fully in Note 14.

Delek began consolidating Lion Oil's results of operations on April 29, 2011. Lion Oil contributed \$512.4 million and \$7.8 million to net sales and net income (net of income attributed to non-controlling interest of \$1.1 million), respectively, for the period from April 29, 2011 through June 30, 2011. Below are the unaudited pro forma consolidated results of operations of Delek for the three and six months ended June 30, 2011 as if the Lion Acquisition had occurred on January 1, 2011 and for the three and six months ended June 30, 2010 as if the Lion Acquisition had occurred on January 1, 2010 (amounts in millions, except per share information):

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|--|-------------|--|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | \$ 2,199.6 | \$ 1,685.0 | \$ 4,073.7 | \$ 3,158.0 |
| Net income | 62.1 | 11.8 | 87.6 | 18.9 |
| Net income (loss) attributed to non-controlling interest | 1.8 | (0.3) | 2.9 | 2.5 |
| Net income attributable to Delek | \$ 60.3 | \$ 12.1 | \$ 84.7 | \$ 16.4 |
| Basic and diluted earnings per share | \$ 1.00 | \$ 0.21 | \$ 1.44 | \$ 0.29 |

Product purchased from Lion Oil by the retail segment prior to the Lion Acquisition totaled \$1.2 million and \$4.3 million during the three and six months ended June 30, 2011, respectively and \$2.2 million and \$5.8 million during the three and six months ended June 30, 2010, respectively. Also prior to the Lion Acquisition, the refining segment sold \$3.0 million and \$3.6 million of intermediate products to the Lion Oil refinery during the three and six

months ended June 30, 2011, respectively. There were nominal sales made by the refining segment to the Lion Oil refinery during the three and six months ended June 30, 2010. These product purchases and sales were made at market values. All product purchases and sales subsequent to the Lion Acquisition have been eliminated in consolidation.

4. Inventory

Refinery inventory consists of crude oil, refined products and blendstocks which are stated at the lower of cost or market. Cost of inventory for the Tyler refinery is determined under the last-in, first-out (LIFO) valuation method. Cost of crude oil, refined product and feedstock inventories in excess of market value are charged to cost of goods sold. Cost of inventory for the El Dorado refinery is determined on a first-in, first-out (FIFO) basis.

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Marketing inventory consists of refined products which are stated at the lower of cost or market on a FIFO basis. Retail merchandise inventory consists of gasoline, diesel fuel, other petroleum products, cigarettes, beer, convenience merchandise and food service merchandise. Fuel inventories are stated at the lower of cost or market on a FIFO basis. Non-fuel inventories are stated at estimated cost as determined by the retail inventory method. Carrying value of inventories consisted of the following (in millions):

| | June 30, 2011 | December 31, 2010 |
|-------------------------------------|--------------------------|------------------------------|
| Refinery raw materials and supplies | \$ 155.2 | \$ 29.5 |
| Refinery work in process | 54.4 | 31.5 |
| Refinery finished goods | 124.2 | 18.9 |
| Retail fuel | 17.0 | 20.2 |
| Retail merchandise | 27.6 | 28.3 |
| Marketing refined products | 16.7 | 8.3 |
| | | |
| Total inventories | \$ 395.1 | \$ 136.7 |

At June 30, 2011 and December 31, 2010, the excess of replacement cost (FIFO) over the carrying value (LIFO) of the Tyler refinery inventories was \$43.9 million and \$36.6 million, respectively.

Permanent Liquidations

During the three and six months ended June 30, 2011, respectively, we incurred a permanent reduction in a LIFO layer resulting in a liquidation (loss) gain in our refinery inventory in the amount of \$(2.1) million and \$1.7 million. This liquidation was recognized as a component of cost of goods sold in the three and six months ended June 30, 2011.

During the three and six months ended June 30, 2010, respectively, we incurred a permanent reduction in a LIFO layer resulting in a liquidation loss in our refinery finished goods inventory in the amount of \$1.1 million and \$0.8 million. This liquidation loss was recognized as a component of cost of goods sold in the three and six months ended June 30, 2010.

5. Crude Oil Supply and Inventory Purchase Agreement

Delek entered into a Master Supply and Offtake Agreement (Supply and Offtake Agreement) with J Aron & Company (J Aron) at the closing of the Lion Acquisition. Pursuant to the Supply and Offtake Agreement, J Aron purchased a majority of the crude oil and refined products in Lion Oil's inventory at market prices. Throughout the term of the Supply and Offtake Agreement, which expires on April 29, 2014, Lion Oil and J Aron will identify mutually acceptable contracts for the purchase of crude oil from third parties and J Aron will supply up to 100,000 bpd of crude to the El Dorado refinery. Crude oil supplied to the El Dorado refinery by J Aron will be purchased daily at an estimated average monthly market price by Lion Oil. J Aron will also purchase all refined product from the El Dorado refinery at an estimated market price daily, as they are produced. These daily purchases and sales are true-up on a monthly basis in order to reflect actual average monthly prices. We have recorded a receivable of \$17.8 million as of June 30, 2011 related to this settlement. Also pursuant to the Supply and Offtake Agreement and other related agreements, Lion Oil will endeavor to arrange potential sales by either Lion Oil or J Aron to third parties of the products produced at the El Dorado refinery. In instances where Lion Oil is the seller to such third parties, J Aron will first transfer the applicable products to Lion Oil.

Upon any termination of the Supply and Offtake Agreement, including in connection with a force majeure, the parties are required to negotiate with third parties for the assignment to us of certain contracts, commitments and arrangements including procurement contracts, commitments for the sale of product, and pipeline, terminalling, storage and shipping arrangements. While title of the inventories will reside with J Aron, this arrangement will be accounted for as a financing. Delek incurred fees of \$1.4 million during both the three and six months ended June 30, 2011, which are included as a component of interest expense in the statement of operations.

Upon any termination of the Supply and Offtake Agreement, Delek will be required to repurchase the consigned crude oil and refined products from J Aron at then market prices. At June 30, 2011, Delek had 2.2 million barrels of inventory consigned to J Aron and we have recorded a liability associated with this consigned inventory of \$239.4 million in other non-current liabilities.

Each month, J Aron sets target inventory levels for each product subject to pre-agreed minimum and maximum inventory levels for each product group. At June 30, 2011, we recorded a current liability of \$3.5 million for forward commitments related to the month end actual consignment inventory levels differing from the month end consignment inventory target levels and the associated pricing with these inventory level differences.

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6. Long-Term Obligations and Short-Term Note Payable

Outstanding borrowings under Delek's existing debt instruments and capital lease obligations are as follows (in millions):

| | June 30, 2011 | December 31, 2010 |
|---------------------------|--------------------------|----------------------------------|
| MAPCO Revolver | \$ 91.0 | \$ 122.1 |
| Fifth Third Revolver | 40.4 | 29.0 |
| Promissory notes | 228.5 | 144.0 |
| Term loan facility | 98.5 | |
| Capital lease obligations | 0.7 | 0.7 |

60, has served as a Director since December 2003. Mr. Hughes has over 30 years experience in the engineering and construction industry as a Registered Civil Engineer and licensed building contractor. From 1974 to 1979, he served as an officer in the United States Air Force. From 1979 to 1986, he was a project design engineer for Cushman & Associates. From 1986 to 1996, he served as a Project Manager on a variety of public works and industrial construction projects. Since 1983, Mr. Hughes has been co-owner of The Whole Wheatery, LLC, a natural foods store located in Lancaster,

California. Mr. Hughes holds a Bachelor of Science degree in Civil Engineering from the United States Air Force Academy and a Master of Science in Engineering from the University of California at Los Angeles.

Mr. Hughes' career experience in the engineering and construction industry brings us invaluable skills which are applicable to our manufacturing processes. In addition, Mr. Hughes provides leadership skills arising from his service as an officer with the U.S. Air Force and U.S. Air Force Academy graduate.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Natural Gas Services Group's Board of Directors held four meetings in 2012. Each Director attended at least 75% of the total number of Board meetings held while such person was a Director. Each Director also attended at least 75% of all of the meetings held by all committees of the Board of Directors for which he served (during the periods that he served). The Board of Directors acts from time to time by unanimous written consent in lieu of holding a meeting.

Our non-management directors hold regularly scheduled executive sessions in which those directors meet without management participation. Generally, the Chairman of the Governance and Personnel Development Committee presides over these sessions. Charles G. Curtis is currently that Chairman.

We typically schedule a Board meeting in conjunction with our annual meeting of shareholders. Although we do not have a formal policy on the matter, we expect our Directors to attend each annual meeting, absent a valid reason, such as illness or an unavoidable schedule conflict. Last year, all of the individuals then serving as Directors attended our 2012 annual meeting of shareholders.

To assist it in carrying out its duties, the Board has delegated certain authority to four separately designated standing committees. These committees are described below.

Audit Committee

The primary functions of our Audit Committee include:

- assisting the Board in fulfilling its oversight responsibilities as they relate to our accounting policies, internal controls, financial reporting practices and legal and regulatory compliance;
- hiring our independent registered public accounting firm;
- monitoring the independence and performance of our independent registered public accounting firm;
- maintaining, through regularly scheduled meetings, a line of communication between the Board, our financial management and independent registered public accounting firm; and
- overseeing compliance with our policies for conducting business, including ethical business standards.

The members of the Audit Committee are David L. Bradshaw (Chairman), Charles G. Curtis, and William F. Hughes, Jr. Our common stock is listed for trading on the New York Stock Exchange, or "NYSE". Under rules of the NYSE, the Audit Committee is to be comprised of three or more Directors, each of whom must be independent. Our Board has determined that all of the members of the Audit Committee are independent, as defined under the applicable NYSE rules and listing standards. In addition, our Board of Directors has determined that David L. Bradshaw is qualified as an "audit committee financial expert" as that term is defined in the rules of the Securities and Exchange Commission. The Audit Committee held eight meetings during the last fiscal year.

Any shareholder may obtain free of charge a printed copy of our Audit Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. You can also view and print a copy of our Audit Committee Charter by clicking on the "Governance" tab at the Investor Relations page of our website at www.ngsgi.com.

Compensation Committee

The functions of our Compensation Committee include:

- assisting the Board in overseeing the management of our human resources;

- evaluating our Chief Executive Officer’s performance and compensation;
- formulating and administering our overall compensation principles and plans; and
- evaluating management.

The Compensation Committee’s policy is to offer the executive officers competitive compensation packages that will permit us to attract and retain individuals with superior abilities and to motivate and reward such individuals in an appropriate fashion in the long-term interests of Natural Gas Services Group and its shareholders. Currently, executive compensation is comprised of salary and cash bonuses and awards of long-term incentive opportunities in the form of stock options under our 1998 Stock Option Plan and restricted stock awards under the 2009 Restricted Stock/Unit Plan.

The members of the Compensation Committee are William F. Hughes, Jr. (Chairman), John W. Chisholm, and David L. Bradshaw. Our Board has determined that all of the members of the Compensation Committee are independent, as defined under the applicable NYSE rules and listing standards. During the last fiscal year there were four meetings of the Compensation Committee.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee members are not officers or employees of our company, and there is not, nor was there during fiscal 2012, any compensation committee interlock (in other words, no executive of our company serves as a Director or on the compensation committee of a company that has one or more executives serving on our Board of Directors or our Compensation Committee).

Any shareholder may obtain free of charge a printed copy of our Compensation Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. You can also view and print a copy of our Compensation Committee Charter by clicking on the “Governance” tab at the Investor Relations page of our website at www.ngsgi.com.

Governance and Personnel Development Committee

Our Governance and Personnel Development Committee primarily focuses on:

- generally overseeing the governance of the Board and its committees;
- interpreting the Governance Guidelines, the Code of Business Conduct and Ethics and other similar governance documents adopted by the Board; and
- overseeing the evaluation of the Board and its committees.

The members of the Governance and Personnel Development Committee are Charles G. Curtis (Chairman), John W. Chisholm and William F. Hughes, Jr. Our Board has determined that each of the Governance and Personnel Development Committee members is independent, as defined under the applicable NYSE rules and listing standards. During the last fiscal year there were three meetings of the Governance and Personnel Development Committee.

Any shareholder may obtain free of charge a printed copy of our Governance Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. You can also view and print a copy of our Governance Committee Charter by clicking on the “Governance” tab at the Investor Relations page of our website at www.ngsgi.com.

Nominating Committee

The functions of our Nominating Committee include:

- identifying individuals qualified to become board members, consistent with the criteria approved by the Board;
- recommending Director nominees and individuals to fill vacant positions; and
- overseeing executive development and succession and diversity efforts.

The members of the Nominating Committee are John W. Chisholm (Chairman), David L. Bradshaw, and Charles G. Curtis. Our Board of Directors has determined that each of the Nominating Committee members is independent as

defined under the applicable NYSE rules and listing standards. During the last fiscal year there were three meetings of the Nominating Committee.

Any shareholder may obtain free of charge a printed copy of our Nominating Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. You can also view and print a copy of our Nominating Committee Charter by clicking on the “Governance” tab at the Investor Relations page of our website at www.ngsgi.com. Our Nominating Committee does not have a diversity policy; however, as discussed below, the Committee’s goal is to nominate candidates who possess a range of experiences and backgrounds which will contribute to the board’s overall effectiveness in meeting its duties and forwarding the goals of our company.

Our Nominating Committee will consider a Director candidate recommended by a shareholder. A candidate must be highly qualified in terms of business experience and be both willing and expressly interested in serving on the Board. A shareholder wishing to recommend 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, 508 West Wall Street, Suite 550, Midland, Texas 79701, Attn.: Charles G. Curtis. 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 after that date at the annual meeting subsequent to the next annual meeting.

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

Director Independence

The Board has determined that each of the following four members of the Board is "independent" within the meaning of applicable listing standards of the NYSE and under the standards set forth in Exhibit A to our Governance and Personnel Development Charter ("Governance Charter"), which are consistent with the NYSE listing standards: David L. Bradshaw, John W. Chisholm, Charles G. Curtis, and William F. Hughes, Jr. A copy of Exhibit A to our Governance Charter is available at our website, www.ngsgi.com, under the heading "Investor Relations—Governance." The Board has made an affirmative determination that each of the four directors named above satisfies these categorical standards. In making its determination, the Board examined relationships between directors or their affiliates with us and our affiliates and determined that each such relationship, if any, did not impair the director's independence.

The Board's Leadership Structure

Under our Corporate Governance Guidelines, our Chief Executive Officer also serves as our Chairman of the Board, and that person is responsible to the Board for the overall management and functioning of the company. Stephen C. Taylor serves as both Chairman of the Board and our President and Chief Executive Officer ("CEO"). The Board believes this is the most effective Board leadership structure at the present time and believes that Mr. Taylor, in his role as Chairman/CEO, has the ability to execute on both our short-term and long-term strategies necessary for the challenging marketplace in which we compete. The independent directors believe that Mr. Taylor's detailed and in-depth knowledge of the issues, opportunities and challenges facing us and our business make him the best qualified director to develop agendas that ensure that the Board's time and attention are focused on the most critical matters. Further, as the individual with primary responsibility for managing day-to-day operations, Mr. Taylor is best positioned to chair regular Board meetings and ensure that key business issues and risks are brought to the attention of our Board and/or Audit Committee. We believe that the creation of a lead independent director position is not necessary at this time.

Each of our directors, other than Mr. Taylor, is independent, and the Board believes that the independent directors provide effective oversight of management. The Board may subsequently decide, however, to change that leadership structure which would require a revision to our Corporate Governance Guidelines. The Board believes that it has in place safeguards to ensure that we maintain the highest standards of corporate governance and continued accountability of the CEO to the Board. These safeguards include:

- All members of the Board are independent directors except for Mr. Taylor.
- Each of the Board's standing committees, including the Audit, Compensation, Governance and Nominating Committees, are comprised of and chaired solely by non-employee directors who meet the independence

requirements under the NYSE listing standards and other governing laws and regulations.

Review and determination of Mr. Taylor's compensation and performance remains within the purview of the Compensation Committee.

The independent directors continue to meet in executive sessions without management present to discuss the effectiveness of the company's management, the quality of the Board meetings and any other issues and concerns.

Role in Risk Oversight

Our Board of Directors oversees the management of risks inherent in the operation of our business and the implementation of our strategic plan. Our executive management is responsible for the day-to-day management of risks we face. The Board is periodically advised by management on the status of various factors that could impact our business and operating results, including oil and gas industry issues, operational issues (such as compressor manufacturing issues, backlog for compressor equipment,) legal and regulatory risks. The full Board is also responsible for reviewing our strategy, business plan, and capital expenditure budget.

Our Board committees assist the Board in fulfilling its oversight responsibilities in certain areas of risk. Our Audit Committee serves an important role in providing risk oversight, as further detailed in its charter. One of the Audit Committee's primary duties and responsibilities is to monitor the integrity of our financial statements, financial reporting processes, systems of internal controls regarding finance, and disclosure controls and procedures. The Compensation Committee assists the Board with risk management relating to our compensation policies and programs, and the Nominating and Governance Committee assists with risk management relating to Board organization, membership and structure, succession planning for our directors and executive officers, and corporate governance.

CODE OF ETHICS

Our Board of Directors has adopted a Code of Business Conduct and Ethics, or "Code", which is posted on our website at www.ngsgi.com. You may also obtain a copy of our Code by requesting a copy in writing at 508 West Wall Street, Suite 550, Midland, Texas 79701 or by calling us at (432) 262-2700.

Our Code provides general statements of our expectations regarding ethical standards that we expect our Directors, officers and employees, including our Chief Executive Officer and principal financial officer, to adhere to while acting on our behalf. Among other things, the Code provides that:

- we will comply with all laws, rules and regulations;
- our Directors, officers and employees are to avoid conflicts of interest and are prohibited from competing with us or personally exploiting our corporate opportunities;
- our Directors, officers and employees are to protect our assets and maintain our confidentiality;
- we are committed to promoting values of integrity and fair dealing; and that
- we are committed to accurately maintaining our accounting records under generally accepted accounting principles and timely filing our periodic reports.

Our Code also contains procedures for our employees to report, anonymously or otherwise, violations of the Code.

EXECUTIVE OFFICERS

Biographical information for the executive officers of Natural Gas Services Group who are not Directors is set forth below. There are no family relationships between any Director or executive officer and any other Director or executive officer. Executive officers serve at the discretion of the Board of Directors and until their successors have been duly elected and qualified, unless sooner removed by the Board of Directors. Officers are elected by the Board of Directors annually at its first meeting following the annual meeting of shareholders.

G. Larry Lawrence, 61, became our Chief Financial Officer, Principal Accounting Officer and Corporate Secretary on July 1, 2011. Previously, Mr. Lawrence was our Controller since September 2010. From June 2006 to August 2010, Mr. Lawrence was self employed as a management consultant doing business as Crescent Consulting. Overlapping this time, from September 2006 to August 2009, he also served as the CFO of Lynx Operating Company. Lynx is a private company engaged in oil and gas production and gas processing activities. From May 2004 through April 2006 Mr. Lawrence served as Controller of Pure Resources, an exploration and production company and wholly owned subsidiary of Unocal Corporation which was acquired by Chevron Corporation. From June 2000 through May 2004, Mr. Lawrence was a practice manager of the Parson Group, LLC, a financial management consulting firm whose services included Sarbanes Oxley engagements with oil and natural gas industry clients. From 1973 through May 2000, Mr. Lawrence was employed by Atlantic Richfield Company where he most recently (from 1993 through 2000) served as Controller of ARCO Permian. Since May 2006, Mr. Lawrence has served as a director of Legacy Reserves, LP. Mr. Lawrence has a Bachelor of Arts in Accounting, with honors, from Dillard University.

James R. Hazlett, 57, has served as Vice President – Technical Services since June 2005. He also served as Vice President of Sales of Screw Compression Systems, Inc. from 1997 until June 2007 when Screw Compression Systems, Inc. was merged into Natural Gas Services Group. After the merger in June 2007, Mr. Hazlett continues to remain employed by Natural Gas Services Group as Vice President – Technical Services. Mr. Hazlett holds a Bachelor of Science degree from the College of Engineering at Texas A&M University and has over 35 years of industry experience.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Discussion and Analysis

The compensation discussion and analysis provides information regarding our executive compensation program in 2012 for the following executive officers of the Company (collectively, the "named executive officers").

• Stephen C. Taylor, our Director, President, and Chief Executive Officer;

• G. Larry Lawrence, our Chief Financial Officer; and

• James R. Hazlett, our Vice President-Technical Services.

Introduction and Overview

The Compensation Committee or, the "Committee," of the Board of Directors is responsible for determining the types and amounts of compensation we pay to our executives. The Committee operates under a written charter that you can view on our website at www.ngsgi.com. The Board of Directors has determined that each member of the Committee

meets the independence and financial literacy requirements of the NYSE. The Board determines, in its business judgment, whether a particular Director satisfies the requirements for membership on the Committee set forth in the Committee's charter. None of the members of the Committee are current or former employees of Natural Gas Services Group or any of its subsidiaries.

The Committee is responsible for formulating and administering our overall compensation principles and plans. This includes establishing the compensation paid to our CEO, meeting and consulting with our CEO to establish the compensation paid to our other executive officers, counseling our CEO as to different compensation approaches, administering our stock option plan, monitoring adherence to our compensation philosophy and conducting an annual, and sometimes more frequent, review of our compensation programs and philosophy regarding executive compensation.

The Committee periodically meets in executive session without members of management or management Directors present and reports to the Board of Directors on its actions and recommendations.

Compensation Philosophy and Objectives

Our compensation philosophy is to provide an executive compensation program that:

- rewards performance and skills necessary to advance our objectives and further the interests of our shareholders;
- is fair and reasonable and appropriately applied to each executive officer; and
- is competitive with compensation programs offered by our competitors.

The overall objectives of our compensation philosophy are to:

- provide a competitive level of current annual income that attracts and retains qualified executives at a reasonable cost to us;
- retain and motivate executives to accomplish our company goals;
- provide long-term incentive compensation opportunities at levels appropriate for the respective responsibilities and performance of each executive;
- align compensation and benefits with our business strategies and goals;
- encourage the application of a decision making process that takes into account both short-term and long-term risks and the sometimes volatile nature of our industry; and
- align the financial interests of our executives with those of our shareholders through the potential grant of equity based rewards.

Our Committee supports these objectives by emphasizing compensation arrangements that we believe are reasonable and will attract and retain qualified executives and reward them for their efforts to further our long-term growth and success. At the same time, we remain cognizant of and aim to balance our executive compensation arrangements with the interests and concerns of our shareholders.

We have chosen to implement a relatively streamlined compensation framework for our executives. We feel that our compensation philosophies and practices are appropriate given our relatively small size as a public company. This framework has consisted primarily of base salaries, cash bonuses and equity awards of stock options and restricted stock. By continuing a relatively streamlined compensation framework for our executives, we believe that we are able to establish a higher degree of transparency, understanding and certainty for our executives as well as the investing public, while at the same time avoiding complex benefit packages and agreements that can be, in some ways, difficult to understand and require significant time and cost to properly administer. In the end, we believe our compensation arrangements provide the desired results: fair and reasonable pay for achievements beneficial to Natural Gas Services Group and its shareholders.

Assistance Provided to the Committee

The Committee makes all compensation decisions regarding our executive officers. Stephen C. Taylor, our CEO, annually reviews the performance of each of our executive officers (other than the CEO whose performance is reviewed by the Committee) and presents recommendations to the Committee with respect to salary and cash bonus percentage adjustments and stock option grants for our executives (other than the CEO whose salary, cash bonus percentage adjustments and stock option grants are determined solely by the Committee). The Committee may exercise its discretion in modifying any recommendations made by our CEO.

The Committee also seeks the input and insight of Mr. Taylor concerning specific factors that Mr. Taylor believes to be appropriate for the Committee's consideration and which the Committee may not be aware of, such as extraordinary efforts or accomplishments of our executive officers. Mr. Taylor also advises the Committee on general topics such as the morale of our executives.

Natural Gas Services Group's accounting department assists the Committee in the compensation process by gathering and organizing data, which is then presented to the Committee by Mr. Taylor for the Committee's review.

In the past, our Committee has not used any outside compensation consultants due to our relative small size; however, in late 2012 our Committee hired an outside compensation consultant to assist with compensation matters for 2013 concerning our Chief Executive Officer. See "Assistance of Compensation Consultants" on page 20 for further information.

Compensation Components

We base our decisions regarding executive compensation primarily on our assessment of company performance, and each executive officer's leadership, performance and individual contributions to our business. The accounting and tax treatment of different elements of compensation has not to date had a significant impact on our use of any particular type of compensation. In reviewing the overall compensation of our officers, we have historically considered and used a mix of the following components or elements of executive compensation:

- base salary;
- cash bonuses under our incentive cash bonus program;
- stock awards;
- retirement and other benefits generally available to all of our employees; and
- limited perquisites.

We do not presently and have not in the past used any of the following types of executive compensation:

- defined benefit pension plans;
- employee stock purchase/ownership plans;
- supplemental executive retirement plans/benefits; or
- deferred compensation plans.

Compensation Evaluation Factors

We continue, as we have in the past, to rely on the following factors in evaluating and determining the amount of compensation we pay our executives:

- our general knowledge of executive compensation levels in the natural gas compression industry and similarly sized energy service companies;
- each executive's individual performance and the overall performance of Natural Gas Services Group; and
- specific company financial metrics and the application of specific weights to such metrics.

The applicability of these factors varies depending on the type of compensation being evaluated and determined. For instance, we do not rely on weighted company financial metrics to evaluate and determine base salary levels, but such factor is the primary means through which we evaluate and determine the amount of the cash bonuses we award to our executives. Below is a more detailed discussion of how these factors apply to the different types of compensation we utilize.

Executive Compensation Levels of other Companies in the Natural Gas Compression and Related Businesses

Historically, we have not focused on a specific peer group to evaluate and establish the compensation of our executive officers. This is primarily because our Compensation Committee has not found similarly-situated companies specializing in gas compression services of similar size. In the Committee's experience, most of the gas services companies in our industry offer a broader scope of products and services than we do, and typically are significantly larger, on both a revenue and market capital basis. Thus, the Committee's review of industry compensation has been limited to simply obtaining a broad-based, general understanding of current compensation practices. For this reason, we have not in the past considered the specific amounts of executive compensation paid by such companies when evaluating or determining our executive compensation. We do, however, from time to time, consider the types of executive compensation offered by publicly traded gas service companies and the annual increases or decreases on a

percentage basis in such compensation.

Individual and Company Performance – Base Salary and Equity Awards

We also evaluate compensation, particularly base salary levels and equity awards (stock options and restricted stock awards), through an analysis of each executive officer's individual performance and the overall performance of Natural Gas Services Group, our goal being to strengthen the link between what we pay our executives and the performance of Natural Gas Services Group. Factors we consider in our analysis include:

- the individual performance, leadership, business knowledge and level of responsibility of our officers;
- the particular skill-set and longevity of service of the officer;
- the effectiveness of the officer in implementing our overall strategy;

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the general financial performance and health of the Company.

Specific Company Financial Metrics – Cash Bonuses

With respect to compensation we pay in the form of cash bonuses, the Committee sets target performance levels for three specific company financial metrics. The Committee relies on whether these targets are achieved and the individual performance of our executive officers to determine whether cash bonuses are awarded and the amounts of such bonuses. The three financial metrics the Committee considers are:

- total revenues;
- EBITDA; and
- net income before taxes.

EBITDA is calculated from our audited financial statements by adding to net income, or loss, (1) amortization and depreciation expense, (2) interest expense and (3) provision for income tax expense.

We believe that our core executive compensation mix of base salary, cash bonuses and equity awards, while fairly limited, presently provides enough diversity for us to link executive compensation to our short-term and long-term objectives. For instance, base salaries and cash bonuses are closely linked to the short-term objectives of providing reasonable and competitive levels of current annual income, while equity awards are more closely linked to the long-term objectives of earnings per share and increased market value of our common stock.

Base Salary

We provide our executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Each year the Committee receives base salary recommendations from our CEO for all of our executive officers (other than our CEO whose base salary is evaluated by the Committee on an annual basis). The Committee reviews comparative salary data and information gathered by the Committee relative to certain of our competitors and industry peers to gain some general knowledge of what our competitors pay their executive officers. The competitors are certain privately held companies in the natural gas industry that are comparable in size to us. We do not consider the specific amounts of the compensation packages offered by our competitors that are public companies because of the considerable size difference between those companies and us, but we do from time to time consider the types of compensation offered by such competitors and the annual increases or decreases on a percentage basis in such compensation. The Committee determines base salary levels by considering the comparative salary data and information gathered by the Committee in conjunction with the factors described above under the caption “Individual and Company Performance – Base Salary and Equity Awards”. We do not give specific weights to any of the factors the Committee considers in determining base salary levels or adjustments thereto.

In January 2012, our Compensation Committee met to discuss compensation matters concerning Stephen C. Taylor, our President and CEO. Pursuant to the terms of our employment agreement with Mr. Taylor, we reviewed his annual base salary and increased it for 2012 from \$363,000 to \$417,500, primarily in recognition of Mr. Taylor’s:

- (i) maintaining income statement margins in 2011 which exceeded that of competitors;
- (ii) achieving approximately \$15 million of positive cash flow notwithstanding the difficult economic conditions; and
- (iii) making timely strategic decisions that led to expanding into shale areas, and maintaining focus on limiting expenditures while improving fleet utilization.

We have not modified Mr. Taylor's base salary for 2013 since we are in the process of evaluating the compensation package in connection with the Committee's employment of an outside compensation consultant.

With respect to our other two named executive officers other than our CEO, James Hazlett, our Vice President of Technical Services, base salary for 2012 was \$163,350 and was increased to \$177,500 for 2013. The base salary of G. Larry Lawrence, our Vice President and Chief Financial Officer was \$130,000 until October 6, 2012, at which time his salary was increase to \$150,000 per year in connection with the anniversary of his employment.

Short-Term Incentives – Annual Incentive Bonus Plan

The Committee has adopted an Annual Incentive Bonus Plan or, the “IBP,” that provides guidelines for the calculation of annual non-equity incentive based compensation in the form of cash bonuses to our executives, subject to Committee oversight and modification. The bonuses awarded under the IBP are short-term awards in recognition of the overall

performance and efforts made by our executives during a particular year. Each year, the Committee approves the group of executives eligible to participate in the IBP and establishes target award opportunities for such executives, excluding our CEO, whose employment agreement provides for a target award opportunity of up to 50% of base salary. For 2012, the Committee modified Mr. Taylor's target award opportunity to up to 80% of his base salary. Target award opportunities were 35% and 40% for Messrs. Hazlett and Lawrence, respectively, of their average base salary for 2012.

In 2012, 90% of an executive officer's IBP award was based on achievement of Company financial objectives relating to:

- total revenues;
- EBITDA; and
- net income before taxes.

Each of these three components accounts for 30% of the total company financial objective portion of the IBP. The remaining 10% of an executive officer's IBP award is based upon individual performance as evaluated by our CEO (except with respect to our CEO whose individual performance is evaluated by the Committee).

Each year, the Committee sets a target level for each component of the company financial objective portion of the IBP. The payment of awards under the IBP is based upon whether these target levels are achieved for the year. Payout on each of the three financial objectives is as follows:

- 75% of the bonus amount attributable to a financial component will be paid if we achieve at least 90% of the target amount;
- 100% of the bonus amount attributable to a financial component will be paid if we achieve at least 100% of the target amount; and
- 125% of the bonus amount attributable to a financial component will be paid if we achieve at least 110% of the target amount.

Thus, if we achieve 100% on each of the target levels for each of the three components of the company financial objective portion of the IBP, an executive with a base salary of \$100,000 and a target award opportunity of 40% will receive a cash bonus of \$40,000, assuming the executive receives the full amount (10%) of the individual performance portion of the IBP. If we do not achieve at least 90% of the target levels for all of the components, the Committee will decrease the target award opportunity for each executive officer by a percentage of up to 30% for each component in which there is a shortfall.

For instance, if we meet all target levels except that we achieve less than 90% of the target level for EBITDA, the Committee will decrease the executive's award opportunity by up to 30%. With respect to the executive described above, the award opportunity for such executive would be reduced from 40% to as low as 28% (the target bonus of 40% multiplied by 70%), in which case the executive would receive a cash bonus of \$28,000, assuming the executive receives the full amount of the individual performance portion of the IBP. Had we achieved at least 90% of the target level for EBITDA, but less than 100%, then the executive would receive 75% of the bonus amount attributable to EBITDA component, which would equate to an additional \$9,000 for a total bonus of \$37,000.

Similarly, if we achieve at least 110% of each of the three financial component targets, then the executive described above would receive a bonus of \$49,000 (\$4,000 for the individual performance portion plus \$45,000 for achieving at least 110% on each of the three financial components calculated by multiplying \$40,000 times 90% times 125%.)

The following table sets forth the bonus financial criteria and target thresholds set by the Committee and compares such thresholds to actual performance achieved and the resulting bonus payout percentages earned in 2012:

2012 Annual Incentive Bonus Plan

| Bonus Criteria | Base Target | Actual Performance | % of Base Achieved | Base Target Payout |
|-------------------------|--------------|--------------------|--------------------|------------------------|
| Revenue | \$71,900,000 | \$92,996,476 | 129.3 | % 37.5% ⁽¹⁾ |
| Net Income before Taxes | \$15,183,700 | \$20,105,669 | 132.4 | % 37.5% ⁽¹⁾ |
| EBITDA* | \$31,755,000 | \$35,844,469 | 112.9 | % 37.5% ⁽¹⁾ |
| Personal Performance | | | | 10.0% |
| Total | | | | 122.5% |

* EBITDA is defined as the Company's earnings before interest, income taxes, depreciation, and amortization, and is an indicator of operating performance.

(1) As noted in the discussion of the Plan, the bonus amount increases to 125% of the 30% payout for each financial component when actual results equals or exceeds the target threshold by 110%.

The following table sets forth the maximum bonus eligibility set by the Committee for 2012 for each of our named executive officers, and based upon the payout percentages noted in the table above, the bonus payout amount earned by each named executive for 2012 under our Annual Incentive Bonus Plan:

| Name | Title | Base Salary | Max Bonus Eligibility | Max Bonus \$ | Bonus Payout % | Bonus Payouts |
|-------------------|-------------------------|-------------|-----------------------|--------------|----------------|---------------|
| Stephen C. Taylor | Pres/CEO | \$417,500 | 80% | \$334,000 | 122.5% | \$409,150 |
| G. Larry Lawrence | Chief Financial Officer | \$135,356 | 36.34% | \$49,188 | 122.5% | \$60,256 |
| James R. Hazlett | VP- Technical Services | \$163,350 | 35% | \$57,173 | 122.5% | \$70,036 |

As noted in the tables above, actual financial performance for 2012 exceeded all three financial metrics by over 110%; thus, 125% (i.e., payout for each metric was 37.5%) of the maximum bonus that could have been earned was awarded for each metric. The base salary and max bonus eligibility for Mr. Lawrence changed during the 2012 year and is prorated in the bonus calculations as a result. With respect to the personal performance criteria, the Committee awarded Messrs. Taylor, Lawrence and Hazlett the maximum amount payable under this component, or 10% of the maximum bonus amount that could have been earned in 2012. The Committee's non-quantitative evaluation of each executive's performance, the Committee made this award in recognition of the Company's (i) increasing gross operating margins by 26% from \$34.8 million to \$43.8 million, (ii) achieving in 2012 a 44% increase in revenues, 36% increase in operating income, a 30% increase in net income and a 21% increase in EBITDA, (iii) increasing the cash balance by \$11.7 million to \$28.1 million while investing \$32 million in capital for equipment, (iv) increasing earnings per share by 29%, (v) controlling S, G & A expense to under 9% of revenues, (vi) increasing rental revenue by 16% despite a large non-recurring sale from the fleet and (vii) maintaining safety performance.

Long-Term Incentives – Stock Option and Restricted Stock Awards

We consider stock options and restricted stock to be a type of long-term incentive compensation that motivates our executive officers to work toward our long-term growth and allows them to participate in the growth and profitability of Natural Gas Services Group. We believe that stock options and restricted stock align the interests of our executive officers with our shareholders in that our executive officers will benefit from the options only to the extent that the value of our common stock increases. The number of options and shares of restricted stock granted to an executive officer is based on a subjective determination of an officer's individual performance and his current contributions and

potential for future contributions to the overall performance of Natural Gas Services Group.

Stock Options

All stock options are granted under our 1998 Stock Option Plan, as amended, except one stock option grant was granted outside of the plan in August 2005 to Stephen C. Taylor, our Chief Executive Officer, as an inducement grant under the terms of his employment agreement. We do not grant discounted options and exercise prices are not based on a

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formula. Options granted under our 1998 Stock Option Plan are “at-the-money.” In other words, the exercise price of the option equals the market price of the underlying stock on the actual date of grant.

Except with respect to an annual option grant or similar equity award required under the employment agreement with Mr. Taylor, the Compensation Committee does not have any specific program or plan with regard to the timing or dating of option grants, except that it has been the Committee’s practice to grant options within thirty days after Natural Gas Services Group’s quarterly or annual earnings releases. The Committee’s practice as to when options are granted has historically been made at the discretion of the Committee. Generally, option grants to executives and other employees have been made at the same time. We have not and do not plan to purposefully time the release of material non-public information for the purpose of affecting the value of executive compensation.

Restricted Stock Awards

In 2009, we adopted the 2009 Restricted Stock/Unit Plan and it went into effect upon its approval by our shareholders at our 2009 annual meeting. As with our stock option plan, the Compensation Committee does not have any specific program or plan with regard to the timing or dating of restricted stock or unit grants. However, the Committee's practice will likely be to grant awards within thirty days after Natural Gas Services Group's quarterly or annual earnings releases. We have not and do not plan to purposefully time the release of material non-public information for the purpose of affecting the value of executive compensation.

On March 21, 2013, the Compensation Committee awarded 10,000 shares of restricted common stock to each of G. Larry Lawrence, our Chief Financial Officer and James R. Hazlett, our Vice President - Technical Services. The restricted shares are subject to a one year vesting requirement from the date of grant. All of the restricted shares are subject to acceleration and will immediately vest in the case of (i) death, disability or retirement of the recipient employee, or (ii) a change of control in the Company, as set forth in the Restricted Stock Plan.

We have not yet granted Mr. Taylor any shares of restricted stock for his performance in 2012 since we are in the process of evaluating his compensation package in connection with the Committee's recent employment of an outside compensation consultant. However, we do anticipate granting Mr. Taylor shares of restricted stock in the near term pursuant to the terms of his employment agreement and for his 2012 performance.

Other than Mr. Taylor's restricted shares which were issued pursuant to the terms of his employment agreement, the restricted stock awards to our names executive officer were made in recognition of the Company's (i) increasing gross operating margins by 26% from \$34.8 million to \$43.8 million, (ii) achieving in 2012 a 44% increase in revenues, 36% increase in operating income, a 30% increase in net income and a 21% increase in EBITDA, (iii) increasing the cash balance by \$11.7 million to \$28.1 million while investing \$32 million in capital for equipment, (iv) increasing earnings per share by 29%, (v) controlling S G and A expense to under 9% of revenues, (vi) increasing rental revenue by 16% despite a large non-recurring sale from the fleet and (vii) maintaining safety performance.

Further information concerning these awards is set forth in column (i) of the "Summary Compensation Table" on page 22 and column (i) of the "Grants of Plan-Based Awards for Fiscal 2012" on page 24

Other Compensation

We maintain a 401(k) retirement plan in which all of our executives and employees are eligible to participate. We match executive and employee contributions to our 401(k) plan, on an equal percentage basis, with cash contributions. The Company matching portion is equal to one-half of the employee’s annual contribution up to a maximum of 3% of the employee’s salary. Our matching amounts for our executive officers are included in column (i) of the “Summary Compensation Table” on page 22.

Other than the reductions that can occur with respect to the target award opportunities of our executives under the IBP, we do not have a written policy or formula regarding the adjustment, reduction or recovery of awards or payments if company performance measures are restated or adjusted in a manner that would reduce the award or payment. However, the Committee does consider compensation realized or potentially realizable from prior compensation awards in setting new types and amounts of compensation, the result of such consideration being varying increases in annual salaries and cash bonuses, with percentage increases in some cases being smaller than previous years.

Employment Agreements

On October 25, 2008, we entered into a new five year written employment agreement with Stephen C. Taylor, our President and Chief Executive Officer. We do not have written employment agreements with any of our other executive officers. We employed Mr. Taylor in January 2005 and the terms of his employment were governed by a verbal arrangement until August 2005 when we negotiated and entered into a written employment agreement with him which expired on January 13, 2008.

The employment agreement of Mr. Taylor provides for, among other things, base salary, incentive cash bonuses under the IBP, and insurance, medical and other benefits generally available to our other employees. Mr. Taylor's employment agreement also contains change of control and severance provisions, as referenced under the caption "Change of Control and Severance Arrangements" below and more particularly described under the caption "Potential Payments Upon Termination or Change of Control" on page 28. More information regarding the above-referenced employment agreement is provided under the heading "Compensation Agreements with Management" on page 32.

Allocation of Amounts and Types of Compensation

Other than the stock options and restricted stock awards we grant to our executives from time to time and the determinations made by the Committee as to specific target award opportunities under our IBP, the allocation of different amounts and types of compensation has not been a consideration for us. The Committee has not adopted a specific policy or target for the allocation between amounts or types of compensation. Since becoming a publicly held company in October 2002, the compensation we have paid to our executive officers has emphasized the use of cash rather than non-cash compensation, although with the adoption of our 2009 Restricted Stock/Unit Plan, we have increased the use of stock awards in our compensation package. We believe that the use of stock awards in our compensation package will align the interests of our management and employees with our stockholders. Notwithstanding moderately increasing the use of stock-based compensation, we intend to maintain and continue our practice of having a simplified, but effective and competitive, compensation package.

Assistance of Compensation Consultants

Although the Committee has the authority to retain, at the expense of Natural Gas Services Group, compensation consultants, the Committee has not in the past sought or relied on an outside compensation consultant to evaluate or establish the compensation we pay our executives. While the Committee believes the executive compensation we pay is fair and generally competitive within the natural gas compression industry, the Committee tends to target pay within approximately 20% of what it believes to be the industry median. This approach helps ensure that our executive compensation remains reasonable and lessens the need for an outside consultant to validate such compensation. Our Committee, nevertheless, understands the value of an outside compensation consultant, and in light of our growth over the last five years and the increased level of competition within the natural gas compression industry for attracting and retaining talented executives, our Committee has hired a consultant to assist with compensation matters for 2013 concerning our Chief Executive Officer.

Change of Control and Severance Arrangements

Our 1998 Stock Option Plan, as amended, and our 2009 Restricted Stock/Unit Plan contains change of control provisions. In addition, Mr. Taylor's employment agreement contains change of control and severance provisions. Information regarding these provisions is provided under the caption "Potential Payments Upon Termination or Change of Control" on page 28.

Stock Ownership/Retention Guidelines

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We have not in the past had written guidelines or policy statements that required our executives to maintain specified levels of stock ownership or adhere to specified “holding” practices with regard to our common stock.

Perquisites

We provide limited perquisites to our executives. The primary perquisites include allowing our executives a choice of receiving an automobile allowance or personal use of a company-provided automobile and matching contributions made by Natural Gas Services Group under our 401(k) plan. Although we provide Mr. Taylor with one club membership, since his use of the club is limited solely for business entertainment, we have not considered it to be a perquisite and have not valued it as such for inclusion in column (i) of the Summary Compensation Table on page 22.

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Our executives also participate in the same medical, dental and life insurance plans as other employees. However, we pay a greater percentage of the premiums for health insurance for our executives than we do for our other employees.

As part of our negotiations with Mr. Taylor relating to his compensation under his employment agreement and as an inducement to Mr. Taylor to join our employment, we agreed to make a cash payment to Mr. Taylor upon his exercise of the stock option granted to him in August 2005 in an amount sufficient to place Mr. Taylor in the same after-tax position he would be in if the income recognized by Mr. Taylor upon his exercise of the stock option were taxed at the then applicable Federal capital gains tax rate. Mr. Taylor is responsible for all tax due with respect to this cash payment.

Limit on Deductibility of Certain Compensation

Provisions of the Internal Revenue Code that restrict the deductibility of certain compensation over \$1 million dollars per year have not been a factor in our considerations or recommendations. Section 162(m) of the Code currently imposes a \$1 million limitation on the deductibility of certain compensation paid to specified executives. Excluded from the limitation is compensation that is “performance based.” For compensation to be performance based, it must meet certain criteria, including being based on predetermined objective standards approved by shareholders. The Committee has not taken the requirements of Section 162(m) into account in designing executive compensation. If the compensation level of any executive officer approaches \$1 million for purposes of Section 162(m), the Committee will assess the implications of Section 162(m) and determine what action would be appropriate, which may be influenced by factors other than full tax deductibility.

Say-on-Pay

At our 2012 Annual Meeting of Stockholders held in June 2012, we submitted a proposal to our stockholders regarding our executive compensation practices.

The proposal was an advisory vote on the 2011 compensation award to our named executive officers (commonly known as a “say-on-pay” vote). Excluding broker non-votes and abstentions, our stockholders approved our 2011 compensation with approximately 90% of these shares voted in favor of this proposal.

We believe that the outcome of our say-on-pay vote indicates our stockholders’ support of our compensation approach, specifically our efforts to retain and motivate our named executive officers. In light of this stockholder support, our Compensation Committee determined not to change its approach to 2012 compensation as described in this proxy statement. The Compensation Committee will continue to consider the outcome of say-on-pay votes when making future compensation decisions for our named executive officers.

Compensation Committee Report

The Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on its review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our proxy statement for the 2013 Annual Meeting of Shareholders.

Members of the Compensation Committee

William F. Hughes, Jr. (Chairman)
John W. Chisholm

Executive Compensation

The table below sets forth the compensation earned by our CEO, Stephen C. Taylor, and our other named executive officers for services rendered to us for the fiscal years ended December 31, 2010, 2011 and 2012.

Summary Compensation Table

| Name and Principal Position | Year | Salary (\$) | Bonus ⁽¹⁾ (\$) | Stock Awards ⁽²⁾ (\$) | Option Awards ⁽³⁾ (\$) | Non-Equity Incentive Plan Compensation ⁽⁴⁾ | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation ⁽⁵⁾ (\$) | Total ^(j) (\$) |
|--|------|-------------|---------------------------|----------------------------------|-----------------------------------|---|---|--|---------------------------|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| Stephen C. Taylor, Chairman, President & CEO | 2012 | \$411,211 | \$3,786 | \$— | \$139,518 ⁽⁶⁾ | \$409,150 | — | \$14,277 | \$838,424 |
| | 2011 | 363,000 | 3,786 | 1,107,500 | 711,871 ⁽⁷⁾ | 235,043 | — | 13,062 | 2,434,262 |
| | 2010 | 316,269 | 3,160 | 184,778 | 380,011 ⁽⁸⁾ | 18,960 | — | 13,082 | 915,991 |
| G. Larry Lawrence, Chief Financial Officer | 2012 | 129,687 | 1,356 | 187,500 | 16,910 ⁽⁹⁾ | 60,256 | — | 12,517 | 391,316 |
| | 2011 | 114,615 | 1,356 | 225,150 | — | 42,088 | — | 12,746 | 395,955 |
| | 2010 | — | — | — | — | — | — | — | — |
| James R. Hazlett, Vice President, Technical Services | 2012 | 163,350 | 1,549 | 187,500 | 72,758 ⁽¹⁰⁾ | 70,036 | — | 30,033 | 452,468 |
| | 2011 | 148,500 | 1,549 | 225,150 | 88,334 ⁽¹¹⁾ | 52,885 | — | 28,267 | 544,685 |
| | 2010 | 135,000 | 4,725 | 21,265 | 59,824 ⁽¹²⁾ | 4,725 | — | 11,795 | 233,959 |

(1) The amounts reflected in column (d) reflect payments under the company's profit sharing program administered to all employees. This program was administered as a Christmas Bonus prior to 2011.

(2) The amounts in column (e) reflect the grant date fair value of stock granted under our 2009 Restricted Stock/Unit Plan. We have not yet granted Mr. Taylor any shares of restricted stock for his performance in 2012 since we are in the process of evaluating his compensation package in connection with the Committee's recent employment of an outside compensation consultant.

(3) The amounts in column (f) reflect the dollar amounts recognized for financial statement reporting purposes for the fiscal years ended December 31, 2010, 2011 and 2012, in accordance with FASB ASC Topic 718, associated with stock option grants under our 1998 Stock Option Plan. Assumptions used to calculate these amounts are included in footnote 9 to our audited financial statements for the fiscal year ended December 31, 2009, in footnote 8 to our audited financial statements for the fiscal year ended December 31, 2010, and in footnote 8 to our audited financial statements for the fiscal year ended December 31, 2011.

The amounts in column (g) reflect the cash bonus awards to the named executive officers under our Annual (4) Incentive Bonus Plan, which is discussed in further detail on page 16 under the caption “Short-Term Incentives - Annual Incentive Bonus Plan.”

The amounts shown in column (i) include matching contributions made by Natural Gas Services Group to each (5) named executive officer under our 401(k) plan and the aggregate incremental cost to Natural Gas Services Group of perquisites provided to our named executive officers as follows:

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| Name | Year | Automobile Allowance | Personal Use of Company Provided Automobiles | Additional Incremental Portion of Health Insurance Premiums Paid for Officers Only | 401(k) Plan | Total ^(a) |
|-------------------|------|----------------------|--|--|-------------|----------------------|
| Stephen C. Taylor | 2012 | \$— | \$1,237 | \$6,716 | \$6,324 | \$14,277 |
| | 2011 | — | 1,237 | 5,220 | 6,605 | 13,062 |
| | 2010 | — | 1,237 | 5,220 | 6,625 | 13,082 |
| G. Larry Lawrence | 2012 | 9,808 | — | — | 2,709 | 12,517 |
| | 2011 | 10,200 | — | — | 1,190 | 11,390 |
| | 2010 | — | — | — | — | — |
| James R. Hazlett | 2012 | 10,200 | — | 15,828 | 4,005 | 30,033 |
| | 2011 | 10,200 | — | 13,032 | 3,846 | 27,078 |
| | 2010 | 3,531 | — | 4,455 | 3,809 | 11,795 |
| Total | 2012 | \$20,008 | \$1,237 | \$22,544 | \$13,038 | \$56,827 |
| | 2011 | \$20,400 | \$1,237 | \$18,252 | \$11,641 | \$51,530 |
| | 2010 | \$3,531 | \$1,237 | \$9,675 | \$10,434 | \$24,877 |

(a) The amounts reflected in this column include a nominal cash Christmas bonus paid to each of the named executive officers in the fiscal years ended December 31, 2010.

(6) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2012, in accordance with FASB ASC Topic 718, for (a) 10,000 shares of common stock that vested on January 28, 2012 under the stock option granted to Mr. Taylor on January 28, 2009, (b) 10,000 shares of common stock that vested on January 18, 2012 under the stock option granted to Mr. Taylor on January 18, 2010.

(7) This amount reflects the dollar amount recognized for financial statements reporting purposes for the fiscal year ended December 31, 2011 in accordance with FASB ASC Topic 718, for (a) 13,333 shares of common stock that vested on January 15, 2011 under the stock option granted to Mr. Taylor on January 15, 2008, (b) 8,333 shares of common stock that vested on September 10, 2011 under the stock option granted to Mr. Taylor on September 10, 2008, (c) 10,000 shares of common stock that vested on January 28, 2011 under the stock granted to Mr. Taylor on January 28, 2009 and (d) 10,000 shares of common stock that vested on January 18, 2011 under the stock option granted to Mr. Taylor on January 18, 2010.

(8) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2010, in accordance with FASB ASC Topic 718, for (a) 13,333 shares of common stock that vested on January 15, 2010 under the stock option granted to Mr. Taylor on January 15, 2008, (b) 8,333 shares of common stock that vested on September 10, 2010 under the stock option granted to Mr. Taylor on September 10, 2008, (c) 10,000 shares of common stock that vested on January 28, 2011 under the stock option granted to Mr. Taylor on January 28, 2009 and (d) 10,000 shares of common stock that vested on January 18, 2011 under the stock option granted to Mr. Taylor on January 18, 2010.

(9)

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This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2012 in accordance with FASB ASC Topic 718, for (a) 1,667 shares of common stock that vested on January 24, 2012 under the stock option granted to Mr. Lawrence on January 24, 2011.

This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2012 in accordance with FASB ASC Topic 718, for (a) 3,333 shares of common stock that (10) vested on December 9, 2012 under the stock option granted to Mr. Hazlett on December 9, 2009, (b) 3,333 shares of common stock that vested on January 24, 2012 under the stock option granted to Mr. Hazlett on January 24, 2011.

This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2011, in accordance with FASB ASC Topic 718, for: (a) 1,333 shares of common stock that (11) vested on September 10, 2011 under the stock option granted to Mr. Hazlett on September 10, 2008, and (b) 3,333 shares of common stock that vested on December 9, 2011 under the stock option granted to Mr. Hazlett on December 9, 2009.

This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2010, in accordance with FASB ASC Topic 718, for: (a) 1,334 shares of common stock that (12) vested on September 10, 2010 under the stock option granted to Mr. Hazlett on September 10, 2008, (b) 3,333 shares of common stock that vested on December 9, 2010 under the stock option granted to Mr. Hazlett on December 9, 2009.

Grants of Plan Based Awards

The table below sets forth the estimated future payouts under non-equity incentive plan awards and stock option awards granted and the grant date fair value of the stock option awards.

Grants of Plan-Based Awards for Fiscal 2012

| Name | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾ | | | Estimated Future Payouts Under Equity Incentive Plan Awards | | | All Other Stock Awards: Number of Shares of Stock or Units (#) ⁽²⁾ | All Other Option Awards: Number of Securities Underlying Option (#) | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards (\$) |
|-----------------------|------------|--|-------------|--------------|---|-------------|--------------|---|---|---|---|
| | | Threshold (\$) | Target (\$) | Maximum (\$) | Threshold (\$) | Target (\$) | Maximum (\$) | | | | |
| (a) Stephen C. Taylor | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) | (l) |
| | | — | — | — | — | — | — | — | — | \$ — | \$ — |
| G. Larry Lawrence | 3/21/2013 | — | — | — | — | — | — | 10,000 | — | 18.75 | 187,500 |
| James R. Hazlett | 3/21/2013 | — | — | — | — | — | — | 10,000 | — | 18.75 | 187,500 |

No awards were made under the non-equity Incentive Plan for 2012 except as described of the performance goals (1) under our Annual Incentive Bonus Plan, or the "IBP." More information regarding the IBP and the calculation of awards is provided below and under the caption "Short-Term Incentives – Incentive Cash Bonus Program" on page 16.

(2) The information shown in this column reflects awards of restricted stock earned in 2012 (but issued in early 2013) by certain of our officers pursuant to our 2009 Restricted Stock/Unit Plan.

Annual Incentive Bonus Plan

Our Annual Incentive Bonus Plan or, the “IBP,” provides for annual non-equity incentive based compensation in the form of cash bonuses to our executive officers. Our Compensation Committee administers and determines from year to year the executives that are eligible to participate in the IBP. The Committee establishes target award opportunities for the executives eligible to participate in the plan. These target award opportunities are expressed as a percentage of an executive’s base salary. An executive’s target award opportunity is the maximum cash bonus an executive is eligible to receive in any one year under the IBP.

The Committee establishes annual target levels for Natural Gas Services Group’s total revenues, EBITDA and net income before taxes and assigns a weight of 30% to each of these components. The executive’s individual performance is assigned a weight of 10%. If during the year Natural Gas Services Group achieves all of the target levels established by the Committee for total revenues, EBITDA and net income before taxes, and it is determined by the Committee that an executive is entitled to the full 10% weight assigned to individual performance, the executive is entitled to receive the maximum cash bonus amount for the executive for that year. If any one of the target levels is not met or it is determined that an executive is not

entitled to the full 10% weight assigned to individual performance, the cash bonus award for the executive is reduced accordingly. More information regarding the IBP and the calculation of awards is provided under the caption “Short-Term Incentives – Incentive Cash Bonus Program” on page 16.

1998 Stock Option Plan

Our 1998 Stock Option Plan provides for the issuance of stock options to purchase up to 750,000 shares of our common stock. The purpose of this plan is to attract and retain the best available personnel for positions of substantial responsibility and to provide long-term incentives to employees and consultants and to promote the long-term growth and success of our business. The plan is administered by the Compensation Committee of the Board of Directors. At its discretion, the Compensation Committee determines the persons to whom stock options may be granted and the terms upon which options will be granted. In addition, the Compensation Committee may interpret the plan and may adopt, amend and rescind rules and regulations for its administration. Option awards are generally granted with an exercise price equal to the closing price of our common stock at the date of grant and generally vest based on three years of continuous service and have ten-year contractual terms.

As of December 31, 2012, stock options to purchase a total of 394,322 shares of our common stock were outstanding under the 1998 Stock Option Plan, which includes 15,000 shares underlying stock options granted on March 23, 2010 to three of our non-employee directors under the compensation arrangements described under the caption “Compensation of Directors” on page 31.

A total of 280,503 shares of common stock were available at December 31, 2012 for future grants of stock options under the 1998 Stock Option Plan. Since the beginning of 2013, we have issued options for 47,000 shares of common stock which has left 233,503 shares available under the 1998 Stock Option Plan as of the date of this proxy statement.

2009 Restricted Stock/Unit Plan

The purpose of our 2009 Restricted Stock/Unit Plan (the “2009 Plan”) is to retain our employees and directors having experience and ability, to attract new employees and directors whose services are considered valuable, to encourage the sense of proprietorship, and to stimulate the active interest of such persons in our development and financial success. We believe that grants of restricted stock and restricted stock units are an increasingly important means to retain and compensate employees and directors.

General Description

Shares Reserved for Issuance under the 2009 Plan. A total of 300,000 shares of our common stock are reserved for issuance under the 2009 Plan. The number of shares of our common stock available under the 2009 Plan will be subject to adjustment in the event of a stock split, stock or other extraordinary dividend, or other similar change in our common stock or capital structure.

Administration. The Plan is administered by the plan administrator, defined as one or more committees the Company designates consisting of independent directors. The draft of the Plan appoints our Compensation Committee as the administrator (the “Committee”).

Generally, the Committee has the authority, in its discretion, (a) to select officers, directors and employees to whom awards may be granted from time to time, (b) to determine whether and to what extent, awards are granted, (c) to determine the number of shares of our common stock, or the amount of other consideration to be covered by each award, (d) to approve award agreements for use under the Plan, (e) to determine the terms and conditions of any award (including the vesting schedule applicable to the award), (f) to amend the terms of any outstanding award granted

under the Plan, (g) to construe and interpret the terms of the Plan and awards granted, and (h) to take such other action not inconsistent with the terms of the Plan, as the Committee deems appropriate.

Types of Awards; Eligibility. Awards of restricted stock and restricted stock units (RSUs) may be granted under the Plan. Awards of restricted stock are shares of our common stock that are awarded subject to such restrictions on transfer as the Committee may establish. Awards of RSUs are units valued by reference to shares of common stock that entitle a participant to receive, upon the settlement of the unit, one share of our common stock for each unit. Awards may be granted to our officers, directors and employees and our related entities, if any. Each award granted under the Plan shall be designated in an award agreement.

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Terms and Vesting of Awards. As noted above, the Committee determines the terms and conditions of each award granted to a participant, including the restrictions applicable to shares underlying awards of restricted stock and the dates these restrictions lapse and the award vests, as well as the vesting and settlement terms applicable to RSUs. When an award vests, we deliver to the participant a certificate for the number of shares without any legend or restrictions (except as necessary to comply with applicable state and federal securities laws.)

In addition to time-based vesting requirements, the Committee is also authorized to establish performance goals in order for awards to vest. For instance, quantitative performance standards, including, financial measurements such as (a) increase in share price, (b) earnings per share, (c) total shareholder return, (d) operating margin, (e) gross margin, (f) return on equity, (g) return on assets, (h) net operating income, (i) pre-tax profit, (j) cash flow, (k) revenue, (l) expenses, (m) EBITDA, and (n) numbers of customers for various services and products offered by us, or other performance goal requirements may be adopted by the Committee and set forth in the particular restricted stock or RSU agreement which must be met in order for shares to vest.

Termination of Service. Unless otherwise set forth in an individual award agreement, the Plan and forms of award agreements provide that in the event a participant's continuous service with us terminates as a result of death, disability or retirement (an "Acceleration Event"), unvested shares or RSUs at the time of termination due to an Acceleration Event will immediately become vested, but only to the extent that such unvested shares or RSUs would have vested within the 12 months following the Acceleration Event. However, the Committee may revise this default provision on an individual basis as it deems advisable. For example, the Committee could elect to accelerate vesting for all unvested shares and/or RSUs upon the occurrence of an Acceleration Event, or conversely provide that all unvested shares and/or RSUs are forfeited upon the occurrence of an Acceleration Event. In the case of a termination of service other than by an Acceleration Event, any unvested shares of RSUs will immediately become null and void, except that with respect to Restricted Stock awards, the Board of Directors may vest any or all unvested shares in its discretion in the case of any termination of service.

In addition, subject to revision by the Committee, the default provisions of the Plan and form of award agreements provide that a Change of Control triggers accelerated vesting of all shares or units. Under the 2009 Plan, a Change in Control Event is generally defined as:

- a complete liquidation or dissolution;
- acquisition of 50% or more of our stock by any individual or entity including by tender offer or a reverse merger;
- a merger or consolidation in which we are not the surviving entity; or

during any period not longer than 12 consecutive months, members of the Board who at the beginning of such period cease to constitute at least a majority of the Board, unless the election, or the nomination for election of each new Board member, was approved by a vote of at least 3/4 of the Board members then still in office who were Board members at the beginning of such period.

Restricted Stock. Under an award of restricted stock, we issue shares of our common stock in the participant's name; however, the participant's rights in the stock are restricted until the shares vest. If the vesting requirements are not met prior to the end of the vesting period, the shares are forfeited. In connection with an award of restricted stock, since actual shares are issued and outstanding, the participant is legally entitled to vote the shares and receive any dividends declared and paid on our common stock prior to the satisfaction of the vesting requirements. However, as discussed above, Participants who hold unvested restricted stock may not sell, assign or transfer such shares until they have vested.

Restricted Stock Units. Like a restricted stock award, a restricted stock unit is a grant valued in terms of our common stock. Unlike a restricted stock award, none of our common stock is issued at the time the RSU award is

granted. Instead, the award is a mere promise to deliver shares of our common stock upon satisfaction of the vesting requirements. Upon satisfaction of the vesting requirements of the award, we then issue and deliver the number of shares subject to the award. If the vesting requirements are not satisfied prior to the end of the vesting period, the units expire and no shares are issued. Since shares of our common stock are not issued in connection with RSUs until such time as the vesting conditions have been satisfied, participants in the Plan who receive awards of RSUs will not have any voting rights and will not be entitled to dividends until such time as the units vest and shares of our common stock are issued.

Amendment, Suspension or Termination of the Plan. We may at any time amend, suspend or terminate the Plan. The Plan will be for a term of ten (10) years unless sooner terminated. Awards may be granted under the Plan upon it becoming effective, but awards granted prior to obtaining shareholder approval will be rescinded if the shareholders do not approve the Plan. We may amend the Plan subject to compliance with applicable provisions of federal securities laws, state corporate and

securities laws, the Internal Revenue Code, and the rules of the NYSE (or such other stock exchange as our common stock may be traded upon at the time.)

Change in Capitalization. Subject to any required action by our shareholders, the number of shares of common stock covered by outstanding awards, the number of shares of common stock that have been authorized for issuance under the 2009 Plan, the exercise or purchase price of each outstanding award, the maximum number of shares of common stock that may be granted subject to awards to any participant in a calendar year, and the like, shall be proportionally adjusted by the Committee in the event of: (i) any increase or decrease in the number of issued shares of common stock resulting from a stock split, stock dividend, combination or reclassification or similar event affecting our common stock; (ii) any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration by us; or (iii) any other transaction with respect to common stock including a corporate merger, consolidation, acquisition of property or stock, separation (including a spin-off or other distribution of stock or property), reorganization, liquidation (whether partial or complete), distribution of cash or other assets to shareholders other than a normal cash dividend, or any similar transaction; provided, however, that conversion of any of our convertible securities shall not be deemed to have been “effected without receipt of consideration.” Except as the Committee determines, no issuance by us of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number of shares of common stock subject to an award.

As of April 15, 2013, we had issued 176,761 shares of restricted stock under the 2009 Plan, of which 116,655 have vested and become unrestricted.

Outstanding Equity Awards at Fiscal Year-End

The following table shows certain information about stock options outstanding as of December 31, 2012 and held by our CEO, Stephen C. Taylor, and each other named executive officer.

Outstanding Equity Awards at 2012 Fiscal Year-End

| Name | Option Awards | | Equity Incentive Plan Awards: | | | Stock Awards | | Equity Incentive Plan Awards: | |
|-------------------|---|---|---|----------------------------|------------------------|--|---|---|---|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares of Stock That Have Not Vested (#) | Market Value of Shares of Stock that Have Not Vested (\$) | Number of Shares or Other Rights that Have Not Vested (#) | Market or Payout Value of Unearned Shares or Other Rights that Have Not Vested (\$) |
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| Stephen C. Taylor | 45,000 | — | — | \$9.22 | 8/26/2015 | — | — | — | — |
| | 15,000 | — | — | \$14.22 | 11/21/2016 | — | — | — | — |
| | 40,000 | — | — | \$20.06 | 1/15/2018 | — | — | — | — |
| | 25,000 | — | — | \$17.51 | 9/10/2018 | — | — | — | — |
| | 30,000 | — | — | \$9.95 | 1/28/2019 | — | — | — | — |
| | 23,852 | — | — | \$7.84 | 3/17/2019 | — | — | — | — |
| | 20,000 | 10,000 ⁽¹⁾ | — | \$19.90 | 1/18/2020 | — | — | — | — |
| | — | — | — | — | — | 50,000 | 744,500 | — | — |
| G. Larry Lawrence | 1,667 | 3,333 ⁽²⁾ | — | \$17.81 | 1/24/2021 | — | — | — | — |
| | — | — | — | — | — | 3,333 | 50,783 | — | — |
| | — | — | — | — | — | 10,000 | 148,900 | — | — |
| James R. Hazlett | 3,333 | 6,667 ⁽³⁾ | — | \$17.81 | 1/24/2021 | — | — | — | — |
| | 5,000 | — | — | \$17.51 | 9/10/2018 | — | — | — | — |
| | 10,000 | — | — | \$17.74 | 12/9/2019 | — | — | — | — |
| | — | — | — | — | — | 3,333 | 50,783 | — | — |
| | — | — | — | — | — | 10,000 | 148,900 | — | — |

(1) Under this stock option granted to Mr. Taylor on January 18, 2010, 20,000 of these shares were currently exercisable at year end, and 10,000 shares became exercisable on January 18, 2013.

(2) Under this stock option granted to Mr. Lawrence on January 24, 2011, 1,667 of these shares were currently exercisable at year end, and 3,333 shares became exercisable on January 24, 2013.

(3) Under this stock option granted to Mr. Hazlett on January 24, 2011, 3,333 of these shares are currently exercisable and the remaining 6,667 shares became exercisable on January 24, 2013.

Option Exercises and Stock Vested in 2012

In the table below, we show certain information about (i) the number of shares of common stock acquired upon exercise of stock options by each of the named executive officers in 2012 and the value realized on exercise of the stock options and (ii) stock awards.

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| Name | Option Awards | | Stock Awards | |
|-------------------|---|---------------------------------|--------------------------------------|---------------------------|
| | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting | Value Realized on Vesting |
| (a) | (b) | (c) | (d) | (e) |
| Stephen C. Taylor | — | — | 24,791 | \$362,463 |
| G. Larry Lawrence | — | — | 1,667 | 22,705 |
| James R. Hazlett | 7,589 | 59,498 | 2,861 | 39,767 |

Potential Payments Upon Termination or Change of Control

Our 1998 Stock Option Plan and 2009 Restricted Stock/Unit Plan contains “change of control” provisions. These provisions are designed to provide some assurance that we will be able to rely upon each executive’s services and advice as to the best interests of Natural Gas Services Group and our shareholders without concern that the executive might be distracted by the personal uncertainties and risks created by any proposed or threatened change of control, and to promote continuity of our executive team.

Under our stock option plan, the Committee may adjust the stock options held by our executives upon the occurrence of a change of control. With this authority, the Committee may in its discretion elect to accelerate the vesting of any stock options that were not fully vested and allow for the exercise of such options as to all shares of stock subject thereto.

Likewise, under our 2009 Restricted Stock/Unit Plan, a change in control will accelerate the vesting of all awards under the plan unless the Committee has provided otherwise in a particular award under the plan. In addition, upon death, disability or retirement, any vesting or other restrictions on the restricted stock awards will accelerate or lapse such that all shares underlying a restricted stock award will become unencumbered.

As noted in the tables above and summarized below, our named executive officers have stock options and restricted stock awards which are subject to certain vesting requirements.

At December 31, 2012, Mr. Taylor had unvested options and restricted stock awards which were subject to forfeiture as follows:

- option to purchase 10,000 shares of common stock with an exercise price of \$19.90 per share; and
- restricted stock award for 50,000 shares of common stock.

At December 31, 2012, Mr. Lawrence had unvested options and restricted stock awards which were subject to forfeiture as follows:

- option to purchase 3,333 shares of common stock with an exercise price of \$17.81 per share;
- restricted stock award for 10,000 shares of common stock; and
- restricted stock award for 3,333 shares of common stock.

At December 31, 2012, Mr. Hazlett had unvested options and restricted stock awards which were subject to forfeiture as follows:

- option to purchase 6,667 shares of common stock with an exercise price of \$17.81 per share;
- restricted stock award for 3,333 shares of common stock; and

restricted stock award for 10,000 shares of common stock

Each of these options and restricted stock awards could have become fully exercisable or unrestricted on December 31, 2012 assuming a change of control were to have occurred on that date. In addition, the restricted stock awards would have been issued without restrictions on December 31, 2012, assuming the named executive officer had died, became disabled or retired. The closing price of our common stock on December 31, 2012, was \$16.42 per share. Accordingly, on December 31, 2012, assuming the vesting of the options had been accelerated by the Compensation Committee, there was no potential for Messrs. Taylor, Hazlett or Lawrence to realize any immediate value upon exercise of the options since their exercise price

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exceeded the market value of our common stock as of that date. Had there been a change in control event or had the named executive officer died, became disabled or retired on December 31, 2012, the vesting terms of the restricted stock awards would have lapsed and the shares would have become unrestricted. As a result, there was a potential for Messrs. Taylor, Hazlett and Lawrence to realize immediate value upon the lapse of restrictions on restricted stock awards as follows: Mr. Taylor -- \$744,500; Mr. Hazlett -- \$199,683; and Mr. Lawrence -- \$199,683.

As described under "Compensation Agreements with Management" on page 32, we entered into a written employment agreement with Stephen C. Taylor, President, CEO and Chairman of the Board in October 2008. Under the employment agreement, Mr. Taylor is eligible for certain benefits in connection with a change in control. These provisions were included in Mr. Taylor's initial employment agreement with us and were continued in his current agreement as part of our negotiations with Mr. Taylor as to the terms of his employment and as an inducement for him to continue his employ with our company. The change of control and severance provisions were designed to promote stability and continuity with respect to Mr. Taylor's employment as our CEO and President.

Mr. Taylor's employment agreement provides that he is entitled to certain severance benefits if his employment was terminated as the result of a "fundamental change" or for any other reason, but excluding the following:

for "cause";

the mental or physical incapacity or inability of Mr. Taylor to perform his duties for a period of 120 or more consecutive days or for multiple periods totaling 180 or more days during any twelve-month period;

the death of Mr. Taylor; or

the voluntary retirement or resignation of Mr. Taylor.

Generally, a "fundamental change" is defined in Mr. Taylor's employment agreement as the occurrence of any of the following:

our dissolution, merger or consolidation;

the sale of all or substantially all of our assets;

the recapitalization or any other type of transaction which resulted in 51% or more of our common stock being changed into, or exchanged for, different securities of ours, or other securities in other entities; or

any change in the duties, functions, responsibilities or authority of Mr. Taylor or any decrease in his base salary.

The severance benefits provided to Mr. Taylor upon the occurrence of a fundamental change include:

a single lump sum cash payment equal to the amount owed through the remaining term of the employment agreement (but not less than 300% of his annual base salary in effect on the date of termination of his employment);

immediate vesting of all unvested stock options or other equity awards;

continued health care and insurance benefits and premium payments for a period of 36 months from the date of termination;

the sum of (i) all bonus or incentive compensation amounts not yet paid but due and owing at the time of termination of employment, and (ii) any bonus or incentive compensation amounts which would have been payable to Mr. Taylor under the employment agreement calculated in a manner as if Mr. Taylor had remained employed by us during the remaining term of the agreement and earned the maximum award level possible; provided, however, that such amount due under item (ii) shall not be less than 300% of the annual bonus or incentive compensation amount that would have been due in the year of termination (once again calculated in a manner as if Mr. Taylor had remained employed by us for the remainder of the year and earned the maximum award level possible); and

immediate vesting of stock options (or other equity awards) and any other compensation or incentive plans that Mr. Taylor contributed to at the date of termination, except to the extent covered by the benefits listed above.

The table below shows the potential payments to Mr. Taylor under (i) the change of control and severance provisions contained in his employment agreement, (ii) stock options, and (iii) the restricted stock awards. The potential payments are based on Mr. Taylor's salary level and compensation package as of December 31, 2012, and the assumption that the change of control or severance event occurred on December 31, 2012.

Chief Executive Officer Potential Payments Table

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| Potential Payments and other Benefits upon a Change of Control or Severance | Fundamental Change | Termination Upon Fundamental Change | Voluntary Resignation or Retirement | Death | Incapacity or Inability to Perform Duties | Termination for Cause | Termination Without Cause |
|---|--------------------|-------------------------------------|-------------------------------------|-----------|---|-----------------------|---------------------------|
| Compensation: | | | | | | | |
| Salary | \$— | \$1,251,000 | \$— | \$— | \$— | \$— | \$1,251,000 |
| Short-Term Incentive: | | | | | | | |
| Compensation-Cash | | | | | | | |
| Bonus Under IBP | — | 1,251,000 | — | — | — | — | 1,251,000 |
| Long-Term Incentive: | | | | | | | |
| Stock Options | 755,750 | 755,750 | 755,750 | 755,750 | 755,750 | 755,750 | 755,750 |
| Restricted Stock Award | — | — | — | — | — | — | — |
| Benefits: | | | | | | | |
| 401(k) Plan | — | 1,054 | — | — | — | — | — |
| Medical Benefits | — | 19,008 | — | — | — | — | — |
| Life Insurance Benefits | — | 1,591 | — | — | — | — | — |
| Other | — | — | — | — | — | — | — |
| Total | \$755,750 | \$3,279,403 | \$755,750 | \$755,750 | \$755,750 | \$755,750 | \$3,257,750 |

Compensation of Directors

We use a combination of cash and equity-based incentive compensation to attract and retain qualified candidates to serve on our Board of Directors. In setting compensation for our Directors, we consider the substantial amount of time that Directors expend in fulfilling their duties to us and our shareholders, as well as the skill-sets required to fulfill these duties.

The following table discloses the cash, equity awards and other compensation earned, paid or awarded, as the case may be, to each of our non-employee Directors during the fiscal years ended December 31, 2012, 2011 and 2010.

| Name | Year | Fees Earned Or Paid (\$) ⁽¹⁾ | Stock Awards (\$) ⁽²⁾ | Option Awards (\$) ^(3,4) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation (\$) | Total (\$) |
|-----------------------------------|------|---|----------------------------------|-------------------------------------|---|---|-----------------------------|------------|
| (a) | | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
| Charles G. Curtis | 2012 | \$25,000 | \$33,575 | \$— | \$— | \$— | \$— | \$58,575 |
| | 2011 | 20,000 | 43,525 | — | — | — | — | 63,525 |
| | 2010 | 15,000 | — | 29,618 | — | — | — | 44,618 |
| David L. Bradshaw | 2012 | 33,333 | 37,003 | — | — | — | — | 70,336 |
| | 2011 | 6,667 | — | — | — | — | — | 6,667 |
| | 2010 | — | — | — | — | — | — | — |
| John W. Chisholm | 2012 | 25,000 | 33,575 | — | — | — | — | 58,575 |
| | 2011 | 20,000 | — | — | — | — | — | 20,000 |
| | 2010 | 15,000 | — | 29,618 | — | — | — | 44,618 |
| William F. Hughes | 2012 | 33,333 | 33,575 | — | — | — | — | 66,908 |
| | 2011 | 26,667 | 43,252 | — | — | — | — | 50,192 |
| | 2010 | 15,000 | — | 29,618 | — | — | — | 44,618 |
| Kenneth V. Huseman ⁽⁵⁾ | 2012 | 25,000 | 61,047 | — | — | — | — | 86,047 |
| | 2011 | 15,000 | — | — | — | — | — | 15,000 |
| | 2010 | — | — | — | — | — | — | — |

Our non-employee Directors are paid a quarterly cash fee for their attendance at each meeting of our Board of (1) Directors. The cash fee payable to our non-employee Directors is \$6,250 per quarter. Each of our non-employee Directors received a cash fee payment of \$6,250 for the four quarters in 2012, totaling \$25,000.

(2) On March 28, 2012, each of our non-employee Directors were granted 2,500 restricted shares of common stock at an exercise price of \$13.43 per share.

On March 13, 2010, each of our non-employee Directors was granted a stock option to purchase 5000 shares of common stock at an exercise price of \$16.74 per share, the closing price of our common stock on March 18, 2009. On March 18, 2009, each of our non-employee Directors was granted a stock option to purchase 2,500 shares of common stock at an exercise price of \$8.00 per share, the closing price of our common stock on March (3) 18, 2009. On December 31, 2007, (for 2008) each of our non-employee Directors was granted a stock option to purchase 2,500 shares of common stock at an exercise price of \$19.61 per share, the closing price of our common stock on December 31, 2007. These stock options were granted under our 1998 Stock Option Plan. The stock options vest in quarterly increments throughout the year granted and, upon vesting, remain exercisable for ten years from the date of grant.

The amounts set forth in column (d) represent the dollar amounts we recognized for financial statement reporting purposes in accordance with FASB ASC Topic 718 with respect to the stock options granted to our non-employee Directors. The grant date fair value, as calculated in accordance with FASB ASC Topic 718, for the stock options granted to our non-employee Directors in 2009 was \$10,486 for each option grant.

(5) Mr. Huseman resigned in 2013.

Cash Compensation Paid to Directors

We pay our non-employee Directors a quarterly cash fee for their attendance at each meeting of our Board of Directors. In 2010, the cash fee payable to our non-employee Directors was \$3,750 per quarter. In addition, the Chairman of the Audit Committee was entitled to an additional quarterly cash fee in the amount of \$1,250. In 2011, the quarterly cash fee for attendance at each meeting of our Board of Directors is \$5,000. The meeting fees were increased for 2012 to \$25,000 per year. In addition, the Chairman of the Audit and Compensation Committee are entitled to an additional quarterly cash fee in the amount 33% of their base cash fee.

Equity Based Compensation Paid to Directors

Prior to 2010 each non-employee Director received an annual stock option award covering 2,500 shares of our common stock for their services as a Director. In 2010, each Director received a stock option award covering 5,000 shares of common stock. The options granted to our non-employee Directors are granted under our 1998 Stock Option Plan. The options vest in 25% increments each calendar quarter in the year granted and, upon vesting, remain exercisable for a term of 10 years from the date of grant, subject to earlier termination upon the occurrence of certain events. The options issued to our non-employee Directors have an exercise price equal to the closing price of our common stock on the date of grant.

Beginning in 2011, our Board of Directors revised the equity-based component of the Board's compensation. The Board of Directors has terminated the annual stock option award and in its place, each Director will receive a grant of 2,500 shares of restricted shares of Company common stock. The restricted shares will be subject to vesting whereby no shares will vest during the first year, and then upon the first anniversary date of the award, one-fourth of the shares will vest every three months so that all restricted shares will have vested on the second anniversary date of the grant of the award.

Directors who are our employees do not receive any compensation for their services as Directors.

Other

All Directors are reimbursed for their expenses incurred in connection with attending meetings.

We provide liability insurance for our Directors and officers. The cost of this coverage for 2012 was approximately \$60,000.

We do not offer non-employee Directors travel accident insurance, life insurance or a pension or retirement plan.

Compensation Agreements with Management

On October 25, 2008, we entered into a new five year employment agreement with Stephen C. Taylor, our President, CEO and Chairman of the Board. We initially employed Mr. Taylor in January 2005. Considering that Mr. Taylor's

employment agreement expires in October 2013, we have begun negotiating a new employment agreement with Mr. Taylor. The 2008 employment agreement provides for, among other things:

- an annual base salary which is reviewed each year by our Compensation Committee and has been set at \$417,500 for 2012;
- an annual bonus as a percentage of Mr. Taylor's annual base salary based upon and subject to parameters established by our Board of Directors or Compensation Committee, which was set at 70% of his base salary for 2011 and 80% for 2012;
- an award to Mr. Taylor of stock options exercisable to acquire a minimum of 30,000 shares of common stock, or equivalent equity awards, each year on the anniversary of his employment; and
- participation in health and other plans generally offered to our employees.

The agreement contains provisions restricting the use of confidential information, requiring that business opportunities and intellectual property developed by Mr. Taylor become our property; and a limited two-year non-compete clause following the date he ceases to be employed by us.

The agreement is subject to termination upon (i) certain fundamental changes (such as a merger or our dissolution, sale of substantially all of our assets, certain reorganizations, or demotion without cause); (ii) the death or mental or physical incapacity of Mr. Taylor or inability of Mr. Taylor to perform the services he has been hired to provide; (iii) the voluntary resignation or retirement of Mr. Taylor; or (iv) the termination of Mr. Taylor's employment for cause within the meaning of the agreement. The employment agreement also provides that he is entitled to certain severance benefits if his employment is terminated as the result of a fundamental change or for any other reason, but excluding the following (unless otherwise authorized by our Board of Directors):

for cause;

the mental or physical incapacity or inability of Mr. Taylor to perform his duties for a period of 120 or more consecutive days or for multiple periods totaling 180 or more days during any twelve-month period;

the death of Mr. Taylor; or

the voluntary retirement or resignation of Mr. Taylor.

The severance benefits provided to Mr. Taylor upon the occurrence of a fundamental change include:

a single lump sum cash payment equal to the amount owed through the remaining term of the employment agreement (but not less than 300% of his annual base salary in effect on the date of termination of his employment);

immediate vesting of all unvested stock options or other equity awards;

continued health care and insurance benefits and premium payments for a period of 36 months from the date of termination;

the sum of (i) all bonus or incentive compensation amounts not yet paid but due and owing at the time of termination of employment, and (ii) any bonus or incentive compensation amounts which would have been payable to Mr. Taylor under the employment agreement calculated in a manner as if Mr. Taylor had remained employed by the Company during the remaining term of the agreement and earned the maximum award level possible; provided, however, that such amount due under item (ii) shall not be less than 300% of the annual bonus or incentive compensation amount that would have been due in the year of termination (once again calculated in a manner as if Mr. Taylor had remained employed by the Company for the remainder of the year and earned the maximum award level possible); and

immediate vesting of stock options (or other equity awards) and any other compensation or incentive plans that Mr. Taylor contributed to at the date of termination, except to the extent covered by the benefits listed above.

We do not have any written employment agreements with our other executive officers.

Limitation on Directors' and Officers' Liability

Our Articles of Incorporation provide our Directors and officers with certain limitations on liability to us or any of our shareholders for damages for breach of fiduciary duty as a Director or officer involving certain acts or omissions of any such Director or officer.

This limitation on liability may have the effect of reducing the likelihood of derivative litigation against Directors and officers and may discourage or deter shareholders or management from bringing a lawsuit against Directors and officers for breach of their duty of care even though such an action, if successful, might otherwise have benefited our shareholders and us.

Our Articles of Incorporation and bylaws provide certain indemnification privileges to our Directors, employees, agents and officers against liabilities incurred in legal proceedings. Also, our Directors, employees, agents or officers

who are successful, on the merits or otherwise, in defense of any proceeding to which he or she was a party, are entitled to receive indemnification against expenses, including attorneys' fees, incurred in connection with the proceeding.

We are not aware of any pending litigation or proceeding involving any of our Directors, officers, employees or agents as to which indemnification is being or may be sought, and we are not aware of any other pending or threatened litigation that may result in claims for indemnification by any of our Directors, officers, employees or agents.

Even though we maintain Directors' and officers' liability insurance, the indemnification provisions contained in our Articles of Incorporation and bylaws remain in place.

Procedures for Reviewing Certain Transactions

On March 7, 2007, we adopted a written policy for the review, approval or ratification of related party transactions. All of our officers, Directors and employees are subject to the policy. Under this policy, the Audit Committee will review all related party transactions for potential conflict of interest situations. Generally, our policy defines a “related party transaction” as a transaction in which we are a participant and in which a related party has an interest. A “related party” is:

- any of our Directors, officers or employees or a nominee to become a Director;
- an owner of more than 5% of our outstanding common stock;
- certain family members of any of the above persons; and
- any entity in which any of the above persons is employed or is a partner or principal or in which such person has a 5% or greater ownership interest.

Approval Procedures

Before entering into a related party transaction, the related party or our department responsible for the potential transaction must notify the CEO or the Audit Committee of the facts and circumstances of the proposed transaction. If the amount involved is equal to or less than \$100,000, the proposed transaction will be submitted to the CEO. If the amount involved exceeds \$100,000, the proposed transaction will be submitted to the Audit Committee. Matters to be submitted will include:

- the related party’s relationship to us and interest in the transaction;
- the material terms of the proposed transaction;
- the benefits to us of the proposed transaction;
- the availability of other sources of comparable properties or services; and
- whether the proposed transaction is on terms comparable to terms available to an unrelated third party or to employees generally.

The CEO or the Audit Committee, as applicable, will then consider all of the relevant facts and circumstances available, including the matters described above and, if applicable, the impact on a director’s independence. Neither the CEO nor any member of the Audit Committee is permitted to participate in any review, consideration or approval of any related party transaction if such person or any of his or her immediate family members is the related party. After review, the CEO or the Audit Committee, as applicable, may approve, modify or disapprove the proposed transaction. Only those related party transactions that are in, or are not inconsistent with, our best interests and that of our shareholders will be approved.

Ratification Procedures

If one of our officers or Directors becomes aware of a related party transaction that has not been previously approved or ratified by the CEO or the Audit Committee then, if the transaction is pending or ongoing, the transaction must be submitted, based on the amount involved, to either the CEO or the Audit Committee and the CEO or the Audit Committee will consider the matters described above. Based on the conclusions reached, the CEO or the Audit Committee, as applicable, will evaluate all options, including ratification, amendment or termination of the related party transaction. If the transaction is completed, the CEO or the Audit Committee will evaluate the transaction, taking into account the same factors as described above, to determine if rescission of the transaction or any disciplinary action is appropriate, and will request that we evaluate our controls and procedures to determine the reason the transaction was not submitted to the CEO or the Audit Committee for prior approval and whether any changes to the procedures are recommended.

We did not have any related party transactions in 2012 with our officers or directors.

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PRINCIPAL SHAREHOLDERS AND SECURITY OWNERSHIP OF MANAGEMENT

For purposes of the following tables, "beneficial ownership" is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, pursuant to which a person or group of persons is deemed to have "beneficial ownership" of any shares of Common Stock that such person has the right to acquire within 60 days.

The following table indicates the beneficial ownership of our common stock as of April 9, 2013 by: (1) each of our current directors and nominees for election; (2) our chief executive officer, principal accounting officer and our other named executive officers (as defined in Item 402(a)(3) of Regulation S-K) (together as a group, the "Named Executive Officers "); and (3) all of our current directors, nominees and executive officers as a group, based on our records and data supplied by each of the current directors, nominees and executive officers.

| Name of Beneficial Owner and Position | Amount and Nature of Beneficial Ownership ⁽¹⁾ | Percent of Class |
|--|--|------------------|
| Directors & Nominees Who Are Not Named Executive Officers | | |
| John W. Chisholm Current Director & Director Nominee | 22,500 ⁽²⁾ | * |
| Charles G. Curtis Current Director | 74,357 ⁽³⁾ | * |
| William F. Hughes, Jr. Current Director | 182,000 ⁽⁴⁾ | 1.47% |
| David L. Bradshaw Current Director | 5,208 | * |
| Named Executive Officers | | |
| Stephen C. Taylor Chief Executive Officer, Current Director | 293,747 ⁽⁵⁾ | 2.37% |
| James R. Hazlett Vice President – Technical Services | 71,677 ⁽⁶⁾ | * |
| G. Larry Lawrence Chief Financial Officer | 31,667 ⁽⁷⁾ | * |
| All Directors (and nominees) and executive officers as a group (7 persons) | 681,156 ⁽⁸⁾ | 5.38% |
| * Less than one percent. | | |

(1) The number of shares listed includes all shares of common stock owned by, or which may be acquired within 60 days of April 9, 2013 upon exercise of warrants and options held by the shareholder (or group). Beneficial ownership is calculated in accordance with the rules of the Securities and Exchange Commission. Unless otherwise indicated, all shares of common stock are held directly with sole voting and investment powers. As of April 9, 2013, none of the shares of common stock owned by our officers and Directors had been pledged as

collateral to secure repayment of loans.

- (2) Includes 15,000 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.
- (3) Includes 15,000 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.

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Includes 150,500 shares of common stock indirectly owned by Mr. Hughes through the William and Cheryl Hughes Family Trust and 22,500 shares that may be acquired upon exercise of stock options granted under our (4) 1998 Stock Option Plan. Mr. and Mrs. Hughes are co-trustees of the William and Cheryl Hughes Family Trust and have shared voting and investment powers with respect to the shares held by the trust. Mr. and Mrs. Hughes are beneficiaries of the trust along with their two children.

(5) Includes 208,852 shares of common stock that may be acquired upon exercise of stock options granted to Mr. Taylor as an inducement for his employment and under our 1998 Stock Option Plan.

(6) Includes 21,667 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.

(7) Includes 6,667 shares of common stock that may be acquired upon exercise of stock options granted under our 1998 Stock Option Plan.

(8) Includes 289,686 shares of common stock that may be acquired upon exercise of stock options.

The following table sets forth information as of April 9, 2013 regarding the beneficial owners of more than five percent of the outstanding shares of our Common Stock. To our knowledge, there are no beneficial owners of more than five percent of the outstanding shares of our Common Stock as of April 16, 2013 other than those set forth below.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|---|------------------|
| Blackrock, Inc. 40 East 52 nd Street New York, New York 10022 | 756,838 ⁽¹⁾ | 6.14% |
| Royce & Associates, LLC 745 Fifth Avenue New York, NY 10151 | 1,144,000 ⁽²⁾ | 9.29% |
| Neuberger Berman Group LLC 605 Third Avenue New York, New York 10158 | 1,586,735 ⁽³⁾ | 12.87% |
| Dimensional Fund Advisors Palisades West, Building One, 6300 Bee Cave Road Austin, Texas 78746 | 830,264 ⁽⁴⁾ | 6.73% |

As reported in Amendment No. 3 to Schedule 13G filed with the Securities and Exchange Commission on (1) February 5, 2013. Blackrock, Inc. has the sole voting and dispositive power over the shares reported in the table above.

(2) As reported in Schedule 13G filed with the Securities and Exchange Commission on January 17, 2013, Royce & Associates, LLC, an investment adviser, holds sole voting and dispositive power over the shares reported in the

table above.

As reported in Amendment No. 4 to Schedule 13G filed with the Securities and Exchange Commission on (3)February 13, 2013. According to the filing, Neuberger Berman Group LLC and Neuberger Berman LLC beneficially own the shares.

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(4) As reported in Amendment No. 1 to Schedule 13G filed with the Securities and Exchange Commission on February 11, 2013. According to the filing, Dimensional Fund Advisors LP may beneficially own the shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors and officers to file periodic reports of beneficial ownership with the Securities and Exchange Commission. These reports show the Directors' and officers' ownership and the changes in ownership of our common stock and other equity securities.

Based on a review of Section 16(a) filings, all transactions in our equity securities required to be reported by Section 16(a) of the Securities Exchange Act of 1934, as amended, were reported on a timely basis, except a single Form 4 for the exercise of options for 10,000 shares of our common stock by Charles G. Curtis on July 30, 2012, which was inadvertently missed and filed upon discovery on January 15, 2013.

REPORT OF THE AUDIT COMMITTEE

Our Audit Committee is responsible for overseeing the integrity of our financial statements; financial reporting processes; compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; and the performance of our internal accounting functions and independent auditors.

Our independent registered public accounting firm is responsible for performing an independent audit of our financial statements in accordance with the Standards of the Public Company Accounting Oversight Board (United States) and to issue a report thereon. The Audit Committee reviews with management our financial statements and management's assessment of internal controls over financial reporting; reviews with the independent registered accounting firm their independent report of independent registered public accounting firm; and reviews the activities of the independent registered public accounting firm. The Audit Committee selects our independent registered public accounting firm each year. The Audit Committee also considers the adequacy of our internal controls and accounting policies. The chairman and members of the Audit Committee are all independent Directors of our Board of Directors within the meaning of Section 303A of the New York Stock Exchange Listed Company Manual.

The Audit Committee has reviewed and discussed our audited financial statements with our management. The Audit Committee has discussed with our independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees), as amended as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Audit Committee has received the written disclosures and the letter from our independent registered public accounting firm required by the Public Company Accounting Oversight Board Rule 3526, and has discussed with the independent registered public accounting firm matters pertaining to their independence. Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for 2012 for filing with the Securities and Exchange Commission. See "Proposal 2 – Ratification of Appointment of Independent Registered Accounting Firm" on the following page for further information.

Respectfully submitted by the Audit Committee,

David L. Bradshaw, Chairman
Charles G. Curtis
William F. Hughes, Jr.

PROPOSAL 2 – RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We are asking the stockholders to ratify the Audit Committee’s appointment of BDO USA, LLP as our independent auditors for the fiscal year ending December 31, 2013. BDO USA, LLP is a registered public accounting firm with the Public Company Accounting Oversight Board (“PCAOB”), as required by the Sarbanes-Oxley Act of 2002 and the rules of the PCAOB. Shareholder ratification of the appointment is not required under the laws of the State of Colorado, but the Board believes it is important to allow the shareholder to vote on the proposal. In the event the shareholders fail to ratify the appointment, the Audit Committee will reconsider this appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of different independent auditors at any time during the year if the Audit Committee determines that such a change would be in our best interests and that of our shareholders.

BDO USA, LLP representatives are expected to attend the 2013 Annual Meeting in person. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

The Board of Directors recommends that the shareholders vote “FOR” the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013.

Principal Accountant Fees

Our principal accountant for the fiscal years ended December 31, 2010, 2011, and 2012 was BDO USA, LLP.

Audit Fees

The aggregate fees billed for professional services rendered by BDO USA, LLP for the audit of our financial statements for our fiscal years ended December 31, 2010, 2011 and 2012 and the review of the financial statements on Forms 10-Q for the fiscal quarters in such fiscal years were approximately \$250,000, \$230,000 and \$258,000.

Audit Related Fees

During the years ended December 31, 2009, 2010 and 2011, there were no audit related fees.

Tax Fees

We were not billed by BDO USA, LLP for any tax services during the years ended December 31, 2010, 2011, or 2012.

All Other Fees

No other fees were billed by BDO USA, LLP, during our fiscal years ended December 31, 2010, 2011, and 2012, other than as described above.

Audit Committee Pre-Approval Policies and Procedures

As of the date of this proxy statement, our Audit Committee has not established general pre-approval policies and as of December 31, 2012, our Audit Committee had not established pre-approval policies and procedures for the engagement of our principal accountant to render audit or non-audit services. However, in accordance with Section 10A(i) of the Exchange Act, our Audit Committee, as a whole, approves the engagement of our principal accountant prior to the accountant rendering audit or non-audit services.

Certain rules of the Securities and Exchange Commission provide that an auditor is not independent of an audit client if the services it provides to the client are not appropriately approved, subject, however, to a de minimus exception

contained in the rules. The Audit Committee pre-approved all services provided by BDO USA, LLP in 2012 and the de minimus exception was not used.

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PROPOSAL 3 – CONSIDERATION OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), gives the stockholders the right to endorse or not endorse the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with the SEC's rules. The proposal, commonly known as a “say on pay” proposal, gives our stockholders the opportunity to express their views on the Company's executive compensation.

At the Company's annual meeting of stockholders held in June 2011, our shareholders recommended that the advisory vote on the Say-on-Pay of our named executives in our proxy materials be submitted annually, notwithstanding that our Board of Directors recommended that the advisory vote be submitted every third year. In light of the recommendation of the shareholders, we intend to include the Say-on-Pay advisory vote in our proxy materials on an annual basis until the next shareholder vote on the frequency of Say-on-Pay or our Board of Directors otherwise determines that a different frequency of Say-on-Pay Vote is in the best interests of the shareholders.

We are asking our stockholders to indicate whether or not they support the compensation program as described in this proxy statement. This proposal is not intended to address any specific item of compensation, but rather the overall compensation of the named executive officers and the compensation policies, methodologies and practices described in this proxy statement. Accordingly, we ask our stockholder to vote “FOR” the following resolution at our annual meeting:

“RESOLVED, that the stockholders approve the compensation of the Company's named executive officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosure contained in the proxy statement set forth under the caption “Executive Compensation” of this proxy statement.”

The Company believes its compensation philosophy and programs are strongly linked to performance and results and appropriately aligned with the interests of stockholders. Our compensation philosophy is to provide an executive compensation program that:

- rewards performance and skills necessary to advance our objectives and further the interests of our shareholders;
- is fair and reasonable and appropriately applied to each executive officer;
- is competitive with compensation programs offered by our competitors; and
- is appropriately focused on achieving annual financial and operational goals through the Company's cash bonus plan and on maximizing stockholder value over the long term, through grants of restricted shares and stock options.

The Board of Directors recommends that you vote FOR approval, on an advisory basis, of the compensation programs of our named executive officers as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosure contained in the proxy statement set forth under the caption “Executive Compensation” of this proxy statement.

SHAREHOLDER PROPOSALS

Under SEC Rule 14a-8, if a shareholder wants us to include a proposal in our proxy statement and form of proxy for presentation at our 2013 Annual Meeting of Shareholders, the proposal must be received by us at our principal executive offices at 508 West Wall Street, Suite 550, Midland, Texas 79701 by January 3, 2014, unless the date of our 2014 Annual Meeting of Shareholders is more than 30 days from the anniversary date of our 2013 Annual Meeting of

Shareholders, in which case the deadline is a reasonable time before we print and mail our proxy materials for the 2014 Annual Meeting of Shareholders. The proposal should be sent to the attention of the Secretary of Natural Gas Services Group.

Rule 14a-4 of the SEC's proxy rules allows a company to use discretionary voting authority to vote on matters coming before an annual meeting of shareholders for the prior year's annual meeting of shareholders or the date specified by an overriding advance notice provision in the company's bylaw's. Our bylaws do not contain such an advance notice provision. Accordingly, for our 2014 annual meeting, shareholders' written notices must be received by us before March 17, 2014 for any proposal a shareholder wishes to bring before the meeting but for which such shareholder does not seek to have a written proposal considered for inclusion in the proxy statement and form of proxy. Your notice should be addressed to President, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701.

In order to curtail controversy as to the date on which a proposal was received by us, it is suggested that proponents submit their proposals by certified mail-return receipt requested. Such proposals must also meet the other requirements established by the SEC for shareholder proposals.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Because of our relatively small size, to date we have not developed formal processes by which shareholders or other interested parties may communicate directly with Directors. Until formal procedures are developed and posted on our website (www.ngsgi.com), any communication to one or more members of our Board of Directors may be made by sending them in care of Investor Relations, Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. Shareholders should clearly note on the mailing envelope that the letter is a "Shareholder-Board Communication." All such communications will be forwarded to the intended recipients.

OTHER MATTERS

Our Board of Directors does not know of any matters to be presented at the meeting other than the matters set forth herein. If any other business should come before the meeting, the person's named in the enclosed proxy card will vote such proxy according to their judgment on such matters.

New York Stock Exchange Certification. We listed our common stock on the New York Stock Exchange in October 2008. The certification of our Chief Executive Officer required by the NYSE Listing Standards, Section 303A.12(a), relating to our compliance with the NYSE Corporate Governance Listing Standards, was submitted to the NYSE on June 18, 2012, in connection with our listing on the exchange. The certifications of our Chief Executive Officer and Principal Accounting Officer required by the SEC in connection with our Annual Report on Form 10-K for the year ended December 31, 2012 were submitted to the SEC on March 15, 2013 with our Annual Report on Form 10-K.

You may obtain our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 without charge upon written request to Stephen C. Taylor, President, at Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701. In addition, the exhibits to the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 may be obtained by any shareholder upon written request to Mr. Taylor.

In addition, we use our website as a channel of distribution for company information. We make available free of charge on the Investor Relations section of our website (www.ngsgi.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. We also make available through our website other reports filed with or furnished to the SEC under the Securities Exchange Act of 1934, as amended, including our proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act, as well as our Code of Business Ethics and the charters to our various Committees of our Board of Directors. We do not intend for information contained in our website to be part of this proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Stephen C. Taylor
Stephen C. Taylor

Midland, Texas
April, 29 2013

Chairman of the Board, President and
Chief Executive Officer

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice and Proxy Statement, Form 10-K and Annual Report available at www.proxyvote.com.

NATURAL GAS SERVICES GROUP, INC.
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
ANNUAL MEETING OF SHAREHOLDERS JUNE 12, 2013.

The shareholders hereby appoint Stephen C. Taylor and G. Larry Lawrence, or either of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of NATURAL GAS SERVICES GROUP, INC. that the shareholders are entitled to vote at the Annual Meeting of Shareholders to be held at 8:30 AM, CDT on June 12, 2013, at the Double Tree Hotel at 117 West Wall Street, Midland, TX 79701, and any adjournment or postponement thereof.

THIS PROXY, WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED BY THE SHAREHOLDER(S). IF NO SUCH DIRECTIONS ARE MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEE LISTED ON THE REVERSE SIDE FOR THE BOARD OF DIRECTORS and FOR ITEMS 2 AND 3. IF ANY OTHER MATTER PROPERLY COMES BEFORE THE MEETING, THE PERSONS NAMED IN THE PROXY WILL VOTE IN THEIR DISCRETION.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED REPLY ENVELOPE.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

NGSGVOTE BY INTERNET - www.proxyvote.com

508 W. Wall St. Use the Internet to transmit your voting instructions and for electronic delivery of information up Suite 550, Midland, until 11:59 P.M. EST the day before the meeting date. Have your proxy card in hand when you TX 79701 access the web site and follow the instructions to obtain your records and to create an electronic

voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. EST the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

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TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY
THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

| | | |
|--|-----------------------|-----------------------|
| The Board of Directors recommends that you vote FOR the following: | For | Withhold |
| 1.Election of Directors Nominee | <input type="radio"/> | <input type="radio"/> |

01 John W. Chisholm (for a term expiring in 2016)

| | | | |
|---|-----|---------|---------|
| The Board of Directors recommends you vote FOR the following proposal(s): | For | Against | Abstain |
|---|-----|---------|---------|

| | | | |
|---|-----------------------|-----------------------|-----------------------|
| 02 Ratification of the appointment of BDO USA, LLP as the Company's Independent Registered Public Accounting Firm for 2013. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
|---|-----------------------|-----------------------|-----------------------|

| | | | |
|--|-----------------------|-----------------------|-----------------------|
| 03 To consider an advisory vote on compensation of our named executive officers. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
|--|-----------------------|-----------------------|-----------------------|

| | | |
|---|-----------------------|-----------------------|
| Please indicate if you plan to attend this meeting: | Yes | No |
| | <input type="radio"/> | <input type="radio"/> |

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

| | | |
|------------------------------------|--------------------------|------|
| Signature [PLEASE SIGN WITHIN BOX] | Signature (Joint Owners) | Date |
| Date | | |