NATURAL GAS SERVICES GROUP INC
Form DEF 14A
April 29, 2016

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

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| o | Preliminary proxy statement |
| o | Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| ý | Definitive Proxy Statement |
| o | Definitive Additional Materials |
| o | Soliciting Material Pursuant to Section 240.14a-12 |

NATURAL GAS SERVICES GROUP, INC.
(Name of Registrant as Specified in its Charter)

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NATURAL GAS SERVICES GROUP, INC.
508 West Wall Street, Suite 550
Midland, Texas 79701

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on Thursday, June 16, 2016

The proxy statement and annual report to shareholders are available at www.proxyvote.com.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on Thursday, June 16, 2016

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Natural Gas Services Group, Inc., a Colorado corporation (the "Company"), will be held at the Petroleum Club of Midland, 501 West Wall Street, Midland, Texas 79701 on Thursday, June 16, 2016 at 8:30 a.m., Central Time, for the purpose of considering and voting upon proposals:

1. To elect one Director to serve until the Annual Meeting of Shareholders to be held in 2019, or until his successor is elected and qualified;

2. To consider an advisory vote on the Company's compensation programs for its named executive officers;
3. To approve the amendment and restatement of the 1998 Stock Option Plan to extend the plan's expiration date and increase the number of shares reserved for issuance under the plan by 250,000 shares;
4. To ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for 2016;

5. To consider an amendment to the Company's Bylaws to implement a majority voting standard in uncontested election of Directors; and
6. To transact such other business as may properly be presented at the meeting, or at any adjournment(s) of the meeting.

Only shareholders of record at the close of business on April 18, 2016 are entitled to notice of and to vote at the meeting and at any adjournment(s) of the meeting. On that day, 12,864,226 shares of our common stock were outstanding and entitled to vote. A complete list of our shareholders entitled to vote at the meeting will be available for examination at our offices in Midland, Texas during ordinary business hours for a period of ten (10) days prior to the annual meeting.

Our Board of Directors recommends that you vote FOR the (i) election of the director nominee named in this proxy statement, (ii) approval, on an advisory basis, of the compensation programs of our named executive officers, (iii) amendment and restatement of the 1998 Stock Option Plan, (iv) the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2016 and (v) amendment to the Company's Bylaws to implement a majority voting standard in uncontested election of Directors.

We cordially invite you to attend the meeting. To ensure your representation at the meeting, please vote promptly even if you plan to attend the meeting. Voting now will not prevent you from voting in person at the meeting if you are a shareholder of record and wish to do so.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Stephen C. Taylor

April 29, 2016

Stephen C. Taylor

Chairman of the Board, President and Chief Executive Officer

NATURAL GAS SERVICES GROUP, INC.

508 West Wall Street, Suite 550
Midland, Texas 79701

PROXY STATEMENT
FOR THE
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON THURSDAY, JUNE 16, 2016

GENERAL INFORMATION

We are providing this proxy statement to you as part of a solicitation by the Board of Directors of Natural Gas Services Group, Inc. for use at our 2016 Annual Meeting of Shareholders and at any adjournment or postponement that may take place. We will hold the meeting at the Petroleum Club of Midland, 501 West Wall Street, Midland, Texas 79701 on Thursday, June 16, 2016 at 8:30 a.m., Central Time.

We are taking advantage of Securities and Exchange Commission, or SEC, rules that allow us to deliver our proxy materials to our shareholders on the Internet. Under these rules, we are sending most of our shareholders a two-page notice regarding the Internet availability of proxy materials instead of a full set of proxy materials. If you receive this two-page notice, you will not receive printed copies of the proxy materials unless you specifically request them. Instead, this notice tells you how to access and review on the Internet all of the important information contained in the proxy materials. This notice also tells you how to submit your proxy card on the Internet and how to request to receive a printed copy of our proxy materials.

We expect to mail, or provide notice and electronic delivery of, this proxy statement and accompanying proxy card to shareholders beginning on or about May 5, 2016.

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QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS
AND THE MEETING

Q: Why am I receiving these materials?

A: Our Board is providing these proxy materials to you in connection with our 2016 Annual Meeting of Shareholders, which will take place on Thursday, June 16, 2016. As a shareholder on the record date for the meeting, you are invited to attend the meeting. We also encourage you to vote on the matters described in this proxy statement.

Q: What information is contained in these materials?

A: This proxy statement includes information about the nominee for director and the other matters to be voted on at the meeting. The proxy statement also includes information about the voting process and requirements, the compensation of directors and some of our executive officers, and certain other required information.

Q: What can I vote on at the meeting?

A: There are five matters to be voted on at the meeting:

1. To elect one Director to serve until the Annual Meeting of Shareholders to be held in 2019, or until his successor is elected and qualified;
2. To consider an advisory vote on the Company's compensation programs for its named executive officers;
3. To approve the amendment and restatement of the Company's 1998 Stock Option Plan for another ten year term and increase the number of shares reserved for issuance under the plan by 250,000 shares of common stock;
4. To ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for 2016;
5. To consider an amendment to the Company's Bylaws to implement a majority voting standard in uncontested election of Directors; and
6. To transact such other business as may properly be presented at the meeting, or at any adjournment(s) of the meeting.

Q: How does the Board recommend that I vote on each of the matters?

A: Our Board recommends that you vote FOR the director nominee, FOR the amendment and restatement of the 1998 Stock Option Plan, FOR the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2016, and FOR the amendment to our Bylaws to implement majority voting in the uncontested election of Directors. With respect to Proposal 2, 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.

Q: Why did I receive a two-page notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

A: We are taking advantage of SEC rules that allow us to deliver proxy materials to our shareholders on the Internet. Under these rules, we are sending most of our shareholders a two-page notice regarding the Internet availability of proxy materials instead of a full set of proxy materials. If you receive this two-page notice, you will not receive printed copies of the proxy materials unless you specifically request them. Instead, this notice tells you how to access and review on the Internet all of the important information contained in the proxy materials. This notice also tells you how to submit your proxy card on the Internet and how to request to receive a printed copy of our proxy materials. Shareholders may also request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

Q: Can I receive next year's proxy materials by email?

A: Yes. All shareholders who have active email accounts and Internet access may sign up for email delivery of shareholder materials. To sign up, go to www.proxyvote.com and click on "Electronic Enrollment." If you have multiple registered or beneficial accounts, you need to enroll for each account. If you elect to receive proxy materials by email, we will not mail you any proxy-related materials next year. Your enrollment in the email program will remain in effect as long as your account remains active or until you cancel it.

Q: Who is entitled to vote at our annual meeting of shareholders?

A: Holders of our outstanding common stock on April 18, 2016, are entitled to one vote per share on each of the items being voted on at the meeting. We refer to this date as the Record Date. On the Record Date, we had 12,864,226 shares of common stock outstanding. We have no other classes of stock outstanding.

Q: What shares can I vote?

A: You can vote all shares you owned on the Record Date. These shares include (1) shares held directly in your name as the shareholder of record and (2) shares held for you as the beneficial owner through a stockbroker, bank or other nominee.

Q: What is the difference between holding shares as a shareholder of record and as a beneficial owner?

A: Most of our shareholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. There are some important distinctions between shares held of record and those owned beneficially.

Shareholder of Record

If your shares are registered in your name with our transfer agent, Computershare, you are the shareholder of record for those shares and are receiving proxy-related materials directly from us. As the shareholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the meeting.

Beneficial Owner

If your shares are held in a stock brokerage account, by a bank or other nominee (commonly referred to as being held in "street name") you are the beneficial owner of those shares. Your broker, bank or nominee is the shareholder of record and therefore has forwarded proxy-related materials to you as beneficial owner. As the beneficial owner, you have the right to direct your broker, bank or other nominee how to vote your shares and are also invited to attend the meeting. However, since you are not the shareholder of record, you may not vote your shares in person at the meeting unless you obtain a signed proxy from your broker, bank or nominee giving you the right to vote the shares.

Q: How do I vote if I am a shareholder of record (as described in the question and answer above)?

A: You can vote on the Internet or by telephone by following the instructions you received in the mail or by email. If you received a full printed set of our proxy materials in the mail, you can also vote by mail by signing and returning the proxy card provided with those materials. Finally, you can vote in person at the meeting.

Q: How do I vote if I am a beneficial owner (as described in the question and answer above)?

A: You can vote on the Internet or by telephone by following the instructions you received in the mail or by email. If you received a full printed set of our proxy materials in the mail, you can also vote by mail. You can vote in person at the meeting only if you obtain a signed proxy from your broker, bank or nominee giving you this right.

Q: Can I change my vote or revoke my proxy?

A: Yes. You can change your vote or revoke your proxy at any time before the final vote at the meeting. You can do this by casting a later proxy through any of the available methods described in the questions and answers above. If you are a shareholder of record, you can also revoke your proxy by delivering a written notice of your revocation to our Corporate Secretary at our principal executive office at 508 West Wall Street, Suite 550, Midland, Texas 79701. If you are a beneficial owner, you can revoke your proxy by following the instructions sent to you by your broker, bank or other nominee.

Q: What does it mean if I get more than one set of proxy-related materials?

A: It means you hold shares registered in more than one account. Follow the instructions in each set of proxy-related materials to ensure that all of your shares are voted.

Q: What is the quorum requirement for the meeting?

A: For a “quorum” to exist at the meeting, shareholders holding a majority of the votes entitled to be cast by the shareholders entitled to vote must be present in person or represented by proxy at the meeting. There must be a quorum for any action to be taken at the meeting (other than adjournment or postponement of the meeting). If you submit a properly completed proxy, even if you abstain from voting, then your shares will be counted for purposes of determining the presence of a quorum.

If a broker indicates on a proxy that it lacks discretionary authority as to certain shares to vote on a particular matter, commonly referred to as “broker non-votes,” those shares will still be counted for purposes of determining the presence of a quorum at the meeting. Please see the next question and answer for further information about "broker non-votes."

Q: What are broker non-votes and how are broker non-votes and abstentions counted?

A: If you are a beneficial owner and hold your shares in street name and do not provide your broker or other nominee with voting instructions, the broker, bank, or other nominee will determine if it has the discretionary authority to vote on the particular matter. The New York Stock Exchange permits brokers to vote their customers' shares on routine matters when the brokers have not received voting instructions from the customers. The ratification of independent public accountants is an example of a routine matter on which brokers may vote. Brokers may not vote their customers' shares on non-routine matters unless they have received instructions from the customers. Non-voted shares on non-routine matters are referred to as broker non-votes. The ratification of the appointment of BDO USA, LLP as our independent public accountants for 2016 (Proposal 4) is a matter considered "routine" under application rules. The election of one director (Proposal 1), the advisory vote to approve the named executive officers compensation programs (Proposal 2), the approval of the amendment and restatement of the 1998 Stock Option Plan (Proposal 3) and the amendment to the Company’s Bylaws to implement a majority voting standard in uncontested election of Directors (Proposal 5) are matters considered "non-routine" under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters. Abstentions and broker non-votes will have no effect on Proposal 1, as the election of a Director is determined by counting the votes actually cast where abstentions and broker non-votes are not treated as votes cast. With respect to the advisory vote to approve the named executive officers compensation programs (Proposal 2), the approval of the 1998 Stock Option Plan amendment and restatement (Proposal 3) and the amendment to the Bylaws (Proposal 5) where the vote required is a majority of votes present and entitled to vote, abstentions will be equivalent to a vote cast against the proposals and broker non-votes will have no effect.

Q: What is the voting requirement to approve each of the matters?

A: Directors are elected by a plurality of the votes cast at the Annual Meeting. This means that the nominee for election as Director who receives the greatest number of votes cast in favor of his or her election will be elected to the Board of Directors. The advisory vote on the compensation programs of our named executive officers, the amendment and restatement of the 1998 Stock Option Plan, ratification of the appointment of BDO USA, LLP as the Company’s independent registered public accounting firm, and the amendment to the Bylaws to implement a majority voting standard in the uncontested election of Directors are approved if the votes cast in favor of the matter exceed the votes cast against the matter. If you are a beneficial owner and do not provide the shareholder of record with voting instructions, your shares may constitute broker non-votes for certain matters (as described in the question and answer immediately above). In tabulating the voting result for a proposal, shares that constitute broker non-votes are not considered as being entitled to vote on that proposal.

Q: How can I vote on each of the matters and how will the votes be counted?

A: In the election of directors, you may vote “FOR,” “AGAINST,” or “ABSTAIN” with respect to the nominee. If you elect to abstain from the election of directors, the abstention will not have any effect on the election of directors. In tabulating the voting results for the election of directors, only “FOR” and “AGAINST” votes are counted.

For the (i) advisory vote on compensation of our named executive officers, (ii) approval of the amendment and restatement of the 1998 Stock Option Plan, (iii) ratification of the appointment of BDO USA, LLP as our independent auditors and (iv) the amendment to the Bylaws to implement a majority voting standard in the uncontested election of Directors, you may vote “FOR,” “AGAINST,” or “ABSTAIN” with respect to these four proposals. If you elect to abstain from voting on any of these proposals, the abstention will have the same effect as an “AGAINST” vote with respect to such proposal.

If you sign and return your proxy card or voting instruction form without giving specific voting instructions, your shares will be voted as recommended by our Board. If you are a beneficial holder and do not return a voting instruction form, your broker may only vote on the ratification of the appointment of BDO USA, LLP (Proposal 4).

Q: Who will count the votes?

A: Broadridge, an international investor relations company, is assisting us with the voting of proxies for our meeting. Prior to the meeting, Broadridge will provide us with a tabulation of the votes cast prior to the meeting. We believe that Broadridge will use procedures that are consistent with Colorado law concerning the voting of shares, the determination of the presence of a quorum and the determination of the outcome of each matter submitted for a vote. In addition, we will appoint a voting inspector at the meeting to count and tabulate any votes cast at the meeting.

Q: Who may attend the meeting?

A: All shareholders as of the Record Date may attend. Please bring to the meeting:

- proof of ownership such as: a copy of your proxy or voting instruction card; the two-page notice regarding the internet availability of proxy materials you received in the mail; or a copy of a brokerage or bank statement showing your share ownership as of the Record Date; and
- proof of identification such as a valid driver’s license or passport.

Q: How will voting on any other business be conducted?

A: We do not expect any matters to be presented for a vote at the meeting other than the five matters described in this proxy statement. If you grant a proxy, either of the officers named as proxy holders, Stephen C. Taylor and G. Larry Lawrence, or their nominees or substitutes, will have the discretion to vote your shares on any additional matters that are properly presented for a vote at the meeting and at any adjournment or postponement that may take place. If, for any unforeseen reason, our nominee is not available as a candidate for director, the persons named as the proxy holder will vote your proxy for another candidate or other candidates nominated by our Board.

Q: May I propose actions for consideration at next year’s meeting of shareholders?

A: Yes. For your proposal to be considered for inclusion in our proxy statement for next year’s meeting, we must receive your written proposal no later than December 19, 2016. If we change the date of next year’s meeting by more than 30 days from the date of this year’s meeting, then the deadline is a reasonable time before we begin to print and send our proxy materials. You should also be aware that your proposal must comply with SEC regulations regarding shareholder proposals.

Similarly, for you to raise a proposal (including a director nomination) from the floor at next year’s meeting, we must receive a written notice of the proposal no later than March 9, 2017. If we change the date of next year’s meeting by more than 30 days from the date of this year’s meeting, then we must receive your written proposal at least 150 days before the date of next year’s meeting for the proposal to be timely.

Q: Who is paying for this proxy solicitation?

A: We will pay the cost of soliciting the proxies. In addition, our officers, directors and employees may solicit proxies or votes in person, by telephone or by email. These people will not be paid any additional compensation for these activities. We will send copies of proxy-related materials or additional solicitation materials to brokers, fiduciaries and custodians who will forward these materials to the beneficial owners of our shares. On request, we will reimburse brokers and other persons representing beneficial owners of shares for their reasonable expenses in forwarding these materials to beneficial owners.

## HOUSEHOLDING OF PROXY MATERIALS

In an effort to reduce printing costs and postage fees, we have adopted a practice called “householding.” Under this practice, shareholders who have the same address and last name and do not participate in email delivery of proxy-related materials will receive only one set of our proxy statement, annual report or notice of internet availability of proxy-related materials unless one or more of these people notifies us that he or she wishes to continue to receive individual copies.

If you share an address with another shareholder and receive only one set of proxy-related materials and would like to request a separate copy for this year’s annual meeting or for any future meetings, please: (1) call our Investor Relations contact at (432) 262-2700; (2) send an email message to alicia.dada@ngsgi.com; or (3) mail your request to Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701, Attn: Investor Relations. Similarly, you may also contact us through any of these methods if you receive multiple copies of the materials and would prefer to receive a single copy in the future.

PROPOSAL 1 - ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes (commonly known as a "staggered" Board), each class to be as nearly equal in number as possible. At each annual meeting of shareholders, members of one of the classes, on a rotating basis, are elected for a three-year term. The authorized number of Directors is currently set at nine. We currently have five directors serving on our Board. Our Board of Directors may fill the vacancies if a qualified candidate is vetted. The following table sets forth, by class, the members of our Board of Directors as of the date of this proxy statement:

| Terms Expiring at the 2016 Annual Meeting | Terms Expiring at the 2017 Annual Meeting | Terms Expiring at the 2018 Annual Meeting |
|---|---|---|
| John W. Chisholm | Charles G. Curtis | David L. Bradshaw |
| | Stephen C. Taylor | William F. Hughes |

Shareholders will be electing one Director at the meeting. The Board is recommending Mr. John Chisholm for re-election to the Board of Directors to serve a three year term expiring at the annual meeting of shareholders in 2019.

The persons named in the enclosed form of proxy will vote the shares represented by such proxy for the election of the nominee for Director named above unless other instructions are shown on the proxy card. If, at the time of the meeting, the nominee becomes unavailable for any reason, which is not expected, the persons entitled to vote the proxy will vote for such substitute nominee, if any, as they determine in their sole discretion, or we may reduce the size of the Board.

Biographical information and qualifications for the person nominated as a Director, and for each person whose term of office as a Director will continue after the 2016 Annual Meeting, is set forth below.

Nominee for Director for Term to Expire in 2019

John W. Chisholm

John W. Chisholm, 61, was appointed as a Director of Natural Gas Services Group in December 2006 to fill a vacancy created by expanding the size of the Board from seven to eight Directors and was first elected as a Director of Natural Gas Services Group at the annual meeting of shareholders held in June 2007. Mr. Chisholm is the founder of Wellogix, an oil and gas software company that develops software aimed at expediting the exchange of enterprise data and communication of complex engineered services. Prior to founding Wellogix, Mr. Chisholm co-founded and served as President of ProTechnics Company from 1985 until its sale to Core Laboratories in December of 1996. Mr. Chisholm served as Senior Vice President of Global Sales and Marketing of Core Laboratories until 1998, when he started Chisholm Energy Partners, an investment fund focused on mid-size energy service companies. From 2002 to 2009 Mr. Chisholm served on the Board of Directors of Flotek Industries, Inc., and became interim President in August 2009. In August 2010 Mr. Chisholm became President of the company and was appointed Chief Executive Officer in March 2012. Flotek Industries, Inc. is a public company which files reports under the Securities Exchange Act of 1934. Mr. Chisholm holds a Business Administration degree from Fort Lewis College in Colorado. He currently serves on the Editorial Advisory Board on Middle East Technology of the Oil & Gas Journal.

Mr. Chisholm brings significant natural resources experience to our Board, in connection with his background in supplying drilling and production related products and services to the oil, gas and mining industries, and his investment fund experience with mid-size energy service companies is an invaluable resource as the Company assesses its capital and liquidity needs.

In addition Mr. Chisholm's experience as a board member and executive officer of a public company provides us with a wealth of leadership and management skills.

Continuing Directors Whose Terms Expire in 2017

Charles G. Curtis

Charles G. Curtis, 83, has served as a Director of Natural Gas Services Group since April 2001. Since 2002, substantially all of Mr. Curtis' business activities have been devoted to managing personal investments. From 1992 until 2002, Mr. Curtis was the President and Chief Executive Officer of Curtis One, Inc., a manufacturer of aluminum and steel mobile stools and mobile ladders. From 1988 to 1992, Mr. Curtis was the President and Chief Executive Officer of Cramer, Inc., a manufacturer of office furniture. Mr. Curtis has a Bachelor of Science degree from the United States Naval Academy and a Master of Science degree in Aeronautical Engineering from the University of Southern California.

Mr. Curtis has been a long-standing member of the Board since prior to the Company's initial public offering in 2002 and as such he brings a wealth of knowledge regarding the Company's history, growth and industry. Through his manufacturing career and engineering educational background, Mr. Curtis assists the Board and the Company in connection with its compressor manufacturing business. As a past U.S. Naval Officer and U.S. Naval Academy graduate, Mr. Curtis also brings leadership skills to the Board and Company.

Stephen C. Taylor

Stephen C. Taylor, 62, has been President and Chief Executive Officer of Natural Gas Services Group since January 2005. He was elected as a Director of Natural Gas Services Group at the annual meeting of shareholders in June 2005. Effective January 1, 2006, Mr. Taylor was appointed Chairman of the Board of Directors. Immediately prior to joining Natural Gas Services Group, Mr. Taylor held the position of General Manager – US Operations for Trican Production Services, Inc. from 2002 through 2004. Mr. Taylor joined Halliburton Resource Management in 1976, becoming its Vice President – Operations in 1989. Beginning in 1993, he held multiple senior level management positions with Halliburton Energy Services until 2000 when he was elected Senior Vice President/Chief Operating Officer of Enventure Global Technology, LLC, a joint-venture deep water drilling technology company owned by Halliburton Company and Shell Oil Company. Mr. Taylor elected early retirement from Halliburton Company in 2002 to join Trican Production Services, Inc. Mr. Taylor holds a Bachelor of Science degree in Mechanical Engineering from Texas Tech University and a Master of Business Administration degree from the University of Texas at Austin.

Mr. Taylor's senior management experience in the natural resources industry provides the Board and our company with significant insight into our business. Mr. Taylor's engineering and advanced business training (MBA) uniquely suits him to provide leadership, technical expertise and financial acumen to our Board and to the operations of our company in connection with his position as our chief executive officer.

Continuing Directors Whose Terms Expire in 2018

David L. Bradshaw

David L. Bradshaw, 61, joined our board in December of 2011. Since 2005, Mr. Bradshaw has acted as a consultant in the oil and gas exploration and production sector and has overseen his investments in this area. From August 2007 through November 2009, Mr. Bradshaw served as a Director and Audit Committee Chairman for Triangle Petroleum, a publicly traded company listed on the American Stock Exchange. From November 2007 through November 2008, Mr. Bradshaw served as a Director for Comet Ridge Limited, an Australian company listed on the Australian Securities Exchange. From 1986 to 2005, Mr. Bradshaw worked for Tipperary Corporation, a U.S. public company listed on the American Stock Exchange. During his tenure at Tipperary, the company was involved in oil and gas exploration and production, and natural gas processing and transportation. He held the positions of Chief Executive Officer from 1996 to 2005, Chairman of the Board from 1997 to 2005, Chief Financial Officer from 1990 to 1996 and Chief Operating Officer from 1993 to 1996. Mr. Bradshaw also served as Chief Executive Officer and Chairman of Tipperary Oil & Gas (Australia) Pty Ltd from 1999 to 2005, a subsidiary of Tipperary, which explored for and produced natural gas in Queensland, Australia. From 1983 to 1986, Mr. Bradshaw was an owner and officer of Bradcorp, Inc. a private exploration and production company. Prior to this, Mr. Bradshaw spent six years in public accounting serving predominantly oil and gas clients. Mr. Bradshaw graduated from Texas A&M University with a BBA in Accounting in 1976 and a MBA in 1977, and is also a Certified Public Accountant.

Mr. Bradshaw's educational and professional training and achievements as a Certified Public Accountant and MBA, along with his past experience as both a Chief Financial Officer and Chief Executive Officer of a public company involved in the natural resources industry, provides us with considerable accounting and corporate finance skills. In addition, Mr. Bradshaw's career spanning over thirty years in the oil and gas industry and as a public accountant adds to his value in his position on our Audit Committee. His executive management positions in both private and public companies bring us significant leadership, planning and management skills and background.

William F. Hughes, Jr.

William F. Hughes Jr., 63, has served as a Director since December 2003. Mr. Hughes has over 30 years of 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 2015. 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. The Chairman of the Governance and Personnel Development Committee has presided over these sessions. In April 2016, the board established a Lead Director role, and assigned those duties to the Lead Director. Charles G. Curtis is currently the Lead Director.

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 2015 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 met nine times during the last fiscal year. The audit committee has also received from, and discussed with, BDO the matters required to be discussed by Public Accounting Oversight Board Auditing Standard No. 16. (Communications with Audit Committees).

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, Inc., and its shareholders.  Currently, executive compensation is comprised of salary and cash bonuses and awards of long-term incentive opportunities in the form of 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 six 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 2015, 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 four 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 four 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.: John W. Chisholm. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment history for at least the past five years indicating employers' 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.

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. As noted above, these committees meet frequently.
- 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.

Lead Director

To promote the independence of the Board and appropriate oversight of management and to demonstrate our commitment to strong corporate governance, the independent directors designate an independent, non-employee director to serve as our Lead Director. The Lead Director helps to facilitate free and open discussion and communication among the independent, nonemployee directors. The responsibilities of the Lead Director are set forth in our Corporate Governance Guidelines, which is available under "Investor Relations - Governance Documents" on our website at www.ngsgi.com. Charles G. Curtis was appointed Lead Director in April 2016.

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 and 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 Governance and Nominating Committee assists with risk management relating to Board organization, membership and structure, succession planning for our directors and executive officers, and corporate governance.

## SHAREHOLDER ENGAGEMENT

The Natural Gas Service's Board of Directors believes that building long-term relationships with all Company stakeholders is vital to our strategy for corporate governance. Our shareholders, who invest in our company and elect the board of directors, are entitled to important information about the company's business, policies and practices so they can make informed decisions and knowledgeably participate in the governance process.

The Company’s executive management has directly engaged shareholders throughout the year in many diverse ways including quarterly conference calls, investor and industry conferences and individual meetings initiated by both the Company and shareholders. It is our policy to actively engage our shareholders in dialogue about our business condition, the structure of our business and certain governance issues, including executive compensation. The Compensation Committee considers the annual stockholders advisory vote, as well as other stockholder input, when reviewing executive compensation programs, principles and policies.

As a result of critiques of our executive compensation plan and the resulting advisory vote on our executive compensation structure, we directly engaged key institutional shareholders in a number of ways including supplemental proxy materials providing additional descriptive information on our overall executive compensation structure. In addition, since our last Annual Meeting, the Company’s executive management has directly engaged many of our institutional shareholders in discussions about our executive compensation program. Specifically, we have discussed our executive compensation program with a number of our top twenty actively managed holders and met with approximately 75 institutional shareholders since our last annual meeting. As a result of those conversations, the Board has considered and adopted certain adjustments to our executive compensation process and policies. See "Executive Compensation" beginning on page 16.

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, 65, 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 serves as a director of Legacy Reserves, LP. Mr. Lawrence has a Bachelor of Arts in Accounting, with honors, from Dillard University.

James R. Hazlett, 60, 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. From 1982 to 1996, Mr. Hazlett served in management roles for Ingersoll Rand/Dresser Rand working with compression of all types in several different departments from sales and service to engineering. From 1978 to 1982, Mr. Hazlett was employed by the down-hole tool division of Hughes Tool designing and installing gas lift and plunger systems. Mr. Hazlett holds a Bachelor of Science degree from the College of Engineering at Texas A&M University and has over 38 years of industry experience.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

Compensation Discussion and Analysis

This compensation discussion and analysis provides information regarding our executive compensation program in 2015 for the following executive officers of the Company (collectively, the "named executive officers").

Stephen C. Taylor, our Chairman, 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.

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 equity plans, 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;
- is competitive with compensation programs offered by our competitors; and
- serves as an adequate retention tool in a competitive market.

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.

The following summary highlights our commitment to executive compensation practices that align the interests of our executives and stockholders:

| WHAT WE DO | | WHAT WE DON'T DO | |
|---|---|---|---|
| ü | Fully independent compensation committee - permits the establishment of competitive compensation practices and the measurement of actual performance in a conflict-of-interest free environment | û | No gross-ups - executive officers are not eligible to receive any tax reimbursement payments or "gross-ups" in connection with any severance or change-in-control payments or benefits |
| ü | Broad-based retirement programs - all of our retirement plans are broad-based and are provided to all full-time employees in addition to our executive officers | û | Limited perquisites - with the exception of a car allowance for our officers and certain nominal expense reimbursements as detailed in the Summary Compensation Table that follows this CD&A, we do not provide any perquisites |
| ü | Independent compensation consultant - the Committee annually engages its own independent compensation consultant to assist with its compensation reviews | û | Prohibition of hedging and pledging shares - we do not permit hedging or pledging as collateral for a loan nor do we permit our executives or non-employee directors to engage in any derivatives trading with respect to our common stock |
| ü | Annual review - the Committee conducted its annual review and approval of the Company's compensation strategy, including a review of our compensation peer group used for comparative purposes and a review of our compensation related risk profile to ensure that such risks are not reasonably likely to have a material adverse effect on the Company | û | No stock option exchanges or repricing - we do not allow for stock option exchanges or the repricing of outstanding stock options without stockholder approval |
| ü | Risk mitigation - we have certain controls in place (signature authority, governance policies, SOX processes, etc.) and an analysis is conducted on a quarterly basis | û | No related party transactions - we do not have any related party transactions |
| ü | Double-trigger employment - our change-in-control payments and benefits with our Chief Executive Officer are based on a "double-trigger" provision | | |
| ü | Stock ownership guidelines - stringent ownership policies for Directors and CEO | | |
| ü | | | |

Clawback policy - applicable to NEO's ("named executive officers") and other executive officers

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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. 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, Inc. and its shareholders.

Advisory Vote on Compensation; Shareholder Engagement

At our 2015 Annual Meeting, less than 50% of the votes cast on the annual advisory “Say-on-Pay” proposal were cast in support of the compensation of our named executive officers. This was significantly lower than the support levels of previous years. The results were disappointing since we believe the vote was the result of the influence of recommendations of certain proxy advisory firms, both of which advise institutional investors on voting on annual proxy matters. We believe that their reports contained factual errors and assumptions that resulted in questionable conclusions and recommendations. Our specific objections to their reports were detailed in supplementary proxy materials that were distributed last year. It is important to note that while the proxy advisory firms felt that our general compensation structure was lacking in some areas there was no lack of alignment in their ‘pay for performance’ metric and, in fact, they complimented the compensation committee for their continued rigor in setting financial targets.

Although this was a non-binding advisory vote, the Company’s Board of Directors takes the results of this vote seriously, and during 2015 the Company’s Board of Directors and executive management deliberated extensively over the results of last year's "Say-on-Pay" vote and engaged in meaningful review of its corporate governance and executive compensation matters with advisors as well as other stakeholders.
While the Compensation Committee and full Board believes that our executive compensation program and corporate governance policies are strong and have served us well, it recognizes the changing compensation and governance landscape.

Below is a summary of what we heard and the actions we took in response:

| Compensation and Governance Concerns | Responses to the Concerns |
|---|---|
| Insufficient Risk Mitigators (i.e., lack of clawback policy and stock ownership guidelines) | We have adopted both a Clawback Policy covering our executive officers and Stock Ownership Guidelines covering our executive officers and members of our Board of Directors. We do note that our company has never had a financial restatement and that each officer and director presently maintains their stock holdings in excess of the minimum guidelines. |
| One Year Vesting of Restricted Stock Grants to Executive Officers | The Compensation Committee approved a new framework for our long-term equity compensation. With respect to our recent restricted stock awards to our executive officers for fiscal 2015 (granted in early 2016), such awards vest over two years and future awards will vest in one-third increments over three years. |
| Excessive Cash Severance | We do not feel that the cash severance benefits for our Chief Executive Officer are excessive. Any change of control severance requires a ‘double-trigger’ to be payable and the triggers are limited to the standard "good reason" events (see page 43). We believe the severance benefits are within the norms of companies in our industry that exhibit a similar performance profile that we do, i.e., industry leading total shareholder returns in each of the past one, three and five year periods. Please see the charts on page 23 and the 2015 performance achievements below. The cash severance due to our CEO in connection with "good reason" events (typically be an involuntary occurrence) equates to approximately three years of total compensation based upon a year of good performance, which the Company has consistently demonstrated. |
| Lack of Lead Independent Director | We have had an appointed lead director for years, but have amended our Corporate Governance Guidelines to include the public identification and acknowledgment of a lead independent director. Charles G. Curtis, our longest tenured independent director, has been formally appointed as our lead director. |
| Targeting 75th percentile for CEO's total compensation | Our CEO's total compensation (base pay and short and long term incentives) has been between the 50th and 75th percentile when compared to peer group companies with the final approved compensation being a combination of the CEO's and the Company's performance. Typically, although it can vary, base salary of our CEO has been in the 50th percentile range while long term incentives are employed to increase the compensation package to competitive levels. This allows the Compensation Committee to annually adjust the CEO's long term incentives in keeping with shareholder returns and Company performance. We think this is an appropriate alignment of pay relative to performance of the company and the competitive market. Supporting this practice is the fact that the Company has performed in the top 15% to 25% of peer group companies for Total Shareholder Return in the last one, three and five year periods (please see pages 22 and 23 for relevant data). Our Compensation Committee believes this performance has justified total compensation being awarded in the 75th percentile range in recent years. However, in the future, if the relative performance of the Company lags our peer group of companies, then the CEO’s total compensation will be evaluated under those circumstances. |

| | |
|---|---|
| Awarding long-term equity awards on a purely discretionary basis with minimum awards guaranteed | In the future, long-term equity awards will be based on a combination of the relative TSR (Total Shareholder Return) of the Company when compared to our peer group of companies and a discretionary component that shall be evaluated by the Compensation Committee. |

In addition to the foregoing, other concerns made by the proxy advisory firms are discussed elsewhere in this section.

Fiscal Year 2015 Performance

In 2015, our financial performance demonstrated extremely positive results and continued to demonstrate a financial condition that provided stability and excellent shareholder value in a very challenging time for a service company in the oil and gas industry. Some of our financial and operational highlights include:

- Increasing cash and cash equivalents from $6.2 million to $35.5 million in 2015;
- Maintained long-term debt at a continuing, very low level (less than $500,000);
- Total revenue decreased only 1.1% in 2015 compared to 2014, a record revenue year. This made 2015 the second highest revenue year in the company's history, a significant achievement considering the operating environment in 2015;
- Decreasing capital expenditures from $53.3 million in 2014 to $12.5 million in 2015 demonstrating a timely and quick response to the deteriorating oil and gas industry environment;
- The Company has self-funded growth capital expenditures in excess of $185 million since 2010;
- Operating cash flow as a percentage of revenue was 43% in 2015, increasing from 35.6% in 2014, making the Company an industry leader in this category;
- Free cash flow ( operating cash flow less capital expenditures) as a percentage of revenue was 30.3% in 2015 compared to (19.4%) in 2014, and compared to the S&P500 in reporting 9% in 2015 when compared to 2014;
- Maintained adjusted EBITDA (as defined on page 24) at 44-45% of revenue in both years while limiting 2015 adjusted EBITDA deterioration to only 3% in 2015;
- Increased average gross margins in our core rental business from 60% in 2014 to 62% in 2015, notwithstanding continuing pressures on revenue and pricing due to the significant fall-off in oil and gas industry;
- Increased compressor sales revenues by 27% from 2014 to 2015;
- Maintained SG&A expenses at 11% of total revenue in both 2014 and 2015 -- the lowest among our public peers;
- Finalized development, and introduced two new gas compression products, a 500 horsepower CiP compressor frame/package and a 50HP-100Hp Vapor Recovery Unit (VRU) product line; and
- For 2015, the Company's common stock price slipped only 3%, while identified public peers were down 43.5%, the OSX index (oil service sector) was off 25.2%, West Texas Intermediate (WTI) fell 30.5% and the U.S. land rig count decreased by 61.5%.

Elements of Our Compensation Program

In order to achieve the objectives set forth above in our compensation philosophy and objectives, we have structured an executive compensation program that provides our named executive officers with the following:

| Element | Characteristics | Primary Objective |
|---|---|---|
| Base Salary | Cash | Attract and retain highly talented individuals |
| Short-Term Incentives | Cash-based performance awards | Reward for corporate and individual performance |
| Long-Term Incentives | Restricted stock with vesting period | Align the interests of our employees and shareholders by providing employees with incentive to perform technically and financially in a manner that promotes share price appreciation |
| Other Benefits | 401(k) matching plans and employee health benefit plans | Provide benefits that promote employee health and support employees in attaining financial security |

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; or
- supplemental executive retirement plans/benefits.

Assistance Provided to the Committee

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

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 and human resources departments assist 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 late 2012, our Compensation Committee hired an independent compensation consultant, Longnecker & Associates ("Longnecker"), to obtain objective, expert advice and assist with compensation matters concerning our Chief Executive Officer and Directors. Longnecker advised the Compensation Committee on a variety of compensation related issues in 2015 with respect to our Chief Executive Officer, including:

- competitive pay analysis on executive compensation;
- pay levels of Chief Executive Officers; and
- our executive compensation program design, including short-term incentive plan design, long-term incentive plan design, and pay mix.

In the course of conducting its activities, Longnecker communicated with the Compensation Committee and presented its findings and recommendations for discussion. During 2015, Longnecker also met with our Chief Executive Officer to review its compensation report.

In 2014 and 2015, Longnecker did not provide any services to the Company, or receive any payments from the Company, other than in its capacity as a consultant to the Compensation Committee. The Compensation Committee has assessed whether the services provided by Longnecker raised any conflicts of interest pursuant to the SEC rules, and has concluded that no such conflicts of interest existed during 2014 or 2015.

Competitive Pay Analysis

To evaluate the competitiveness of our Chief Executive Officer's base salary, target total cash compensation (i.e., base salary plus target short-term cash incentive award), long-term incentive awards, and total direct compensation (i.e. base salary, target short-term cash incentive award, and long-term incentive awards), Longnecker annually provides the Committee competitive pay information derived from a custom peer group that is reviewed each year (the “Custom Peer Group”) and referred to a variety of published compensation surveys. The companies comprising the Custom Peer Group in Longnecker’s compensation report used in connection with 2015 included:

| NGS Custom Peer Group Company Name | Company Description |
|---|---|
| Gulfmark Offshore, Inc. | GulfMark Offshore, Inc. provides offshore marine support and transportation services primarily to companies involved in the offshore exploration and production of oil and natural gas. |
| Archrock Partners, LP | Archrock Partners, L.P. provides natural gas contract operations services to customers in the United States (In November 2015, Exterran Partners, L.P. spun off their US compression into a new entity named "Archrock Partners"). |
| Dawson Geophysical Co. | Dawson Geophysical Company provides onshore seismic data acquisition and processing services in the United States. |
| Callon Petroleum | Callon Petroleum is an independent energy company which is focused on growing production and reserves from its oil-weighted, multi-play, multi-pay assets in the Permian Basin. |
| Vaalco Energy, Inc. | VAALCO Energy, Inc., an independent energy company, together with its subsidiaries, engages in the acquisition, exploration, development, and production of crude oil and natural gas. |
| Team, Inc. | Team Inc. provides specialty industrial services in the United States, Canada, Europe, and internationally related to the construction, maintenance and monitoring of pressurized piping and associated systems in the refining, petrochemical, power, pipeline and other heavy industrial industries. |
| Tesco Corp. | Tesco Corporation, together with its subsidiaries, is engaged in the design, manufacture and service delivery of technology-based solutions for the upstream energy industry worldwide. |
| RigNet, Inc. | RigNet, Inc. provides remote communications services for the oil and gas industry. |
| Mitcham Industries, Inc. | Mitcham Industries, Inc., through its subsidiaries, engages in the leasing, sale, and service of geophysical and other equipment to the seismic industry worldwide. |
| USA Compression Partners, LP | USA Compression Partners provides natural gas compression services under term contracts with customers in the oil and gas industry in the U.S. |

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|---|---|
| Warren Resources, Inc. | Warren Resources, Inc., an independent energy company, engages in the exploration, development, and production of onshore oil and natural gas reserves in the United States. |
| Flotek Industries Inc. | Flotek Industries develops and supplies drilling, completion and production technologies and related services to the energy and mining industries in the U.S. and internationally. |

The Compensation Committee, with the assistance of the compensation consultant, reviewed the companies comprising the Custom Peer Group in order to maintain its appropriateness for the competitive pay analysis. These companies were generally selected since they are all companies in the energy and energy services industry and have various rental, leasing or manufacturing components in their business with all having an acceptable range of relatively similar annual revenues and market capitalization. The Compensation Committee believes the Custom Peer Group reflects our current competitors for employee talent and that it provides an appropriate peer set for the purposes of evaluating our pay practices and the Chief Executive Officer's pay levels.

The published compensation surveys consisted of the following:

- Economic Research Institute -- Executive Compensation Assessor
- Tower Watson -- Top Management Compensation
- Mercer, Inc. -- Executive General Benchmark Survey
- Kenexa -- CompAnalyst Benchmark Survey
- WorldatWork -- Total Salary Increase Budget Survey

The Compensation Committee used the competitive pay information and surveys as a "market check" to ensure, in its subjective judgment, that the Chief Executive Officer's base salary, target total cash compensation, long-term incentive awards and total direct compensation remain competitive. The Compensation Committee does not target any individual pay component to fall within a specific range or percentile of the competitive pay information. While the competitive pay information is important to the Compensation Committee's approval process, it is just one of several factors considered by the Compensation Committee in approving executive compensation and the Compensation Committee has discretion in determining the nature and extent of its use.

Performance Comparison to Peer Group

The table below shows the aggregate one, three and five-year Total Shareholder Return ("TSR") for the Company as well as the median TSR for the peer group utilized by the Company.

Aggregate Total Shareholder Return

| Company/Peer Group | 1-year TSR | 3-year TSR | 5-year TSR |
|---|---|---|---|
| Natural Gas Services Group | (3.2)% | 35.8% | 17.9% |
| Median NGS Proxy Peer Group | (43.5)% | (37.9)% | (54.3)% |

As the foregoing table indicates, the Company has significantly outperformed its peers in both 2015 and over the past five years. Moreover, as the table below indicates, on an annualized basis, the Company has also outpaced its peer group over the same time period.

Annualized Total Shareholder Return

| Company/Peer Group | 1-year Ann. TSR | 3-year Ann. TSR | 5-year Ann. TSR |
|---|---|---|---|
| Natural Gas Services Group | (3.2)% | 10.7% | 3.4% |
| Median NGS Proxy Peer Group | (43.5)% | (14.7)% | (14.5)% |

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Individual and Company Performance - Base Salary and Equity Awards

The Compensation Committee also evaluates compensation, particularly base salary levels and equity awards (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 the Committee considers 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; and
- the general financial performance and health of the Company.

Our CEO is additionally evaluated on his specific ability and effectiveness with respect to shareholder and customer engagement.

Specific Company Financial Metrics - Cash Bonuses

With respect to compensation we pay in the form of cash bonuses, the Committee sets performance levels for three specific company financial metrics. The Committee relies on whether these levels 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;
- adjusted EBITDA; and
- adjusted net income before taxes.

Adjusted EBITDA is calculated from our audited financial statements by adding to net income, or loss, (1) amortization and depreciation expense, (2) interest expense (3) provision for income tax expense and (4) loss on retirement of rental equipment.

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 salary and cash bonuses generally relate to short-term achievements and objectives while equity awards are more closely linked to the long-term objectives of earnings per share and increased market value of our common stock or maintenance of market value in periods of depressed industry performance, such as during the past two years.

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 Chief Executive Officer for all of our executive officers (other than our Chief Executive Officer whose base salary is evaluated by the Committee on an annual basis).

In January 2015, the Compensation Committee reviewed the 2014 performance of our Chief Executive Officer, Stephen C. Taylor, along with the competitive pay information provided in Longnecker's report, in setting Mr. Taylor's base salary for 2015. Before the increase in salary for 2014, Mr. Taylor's base salary fell to slightly less than the 50th percentile bracket in the Company's peer group. In connection with that review, the Committee increased the base salary of Mr. Taylor from $505,175 in 2014 to $543,063 in 2015, which moved Mr. Taylor's base salary to approximately the 63rd percentile bracket. The increase was made in recognition of Mr. Taylor's leadership and contributions to the Company's strong 2014 financial and operational results, which included: (i) increasing total gross margin, exclusive of depreciation and amortization, by 11.4% to $53.8 million for 2014 from $48.3 million for 2013; (ii) achieving in 2014 record high revenue of $97 million, a 9.0% increase in revenue from 2013; (iii) a 7% increase in EBITDA; generating $34.6 million from operations, while investing $53.1 million in capital for equipment; (iv) controlling SG&A expense to 10.6% of revenues; increasing rental revenue by 14.4%; internally funding over $175 million in growth capital since 2010 while maintaining a very low debt level when compared to competitors; (v) maintaining high margins and maintaining high ratios of operating income, net income and EBITDA when compared to gross revenues relative to competitors; (vi) aggressive expansion into new geographic areas; (vii) positioning our business to emphasize servicing oil and gas production rather than drilling projects in order to offset drilling slowdowns as witnessed in the latter half of 2014; and (viii) maintaining safety performance.

While the Compensation Committee reviewed the competitive pay information in connection with setting Mr. Taylor's base salary adjustments, together with his contributions toward our goals, the Compensation Committee did not target his base salary to fall within a specific range or percentile of the competitive pay information.

With respect to our other two named executive officers other than our CEO, James Hazlett, our Vice President of Technical Services, base salary for 2015 was $200,000 compared to $190,000 for 2014. The base salary of G. Larry Lawrence, our Vice President and Chief Financial Officer, for 2015, was $187,000 compared to $170,000 for most of 2014. We continue, as we have in the past, to rely on the following factors in evaluating and determining the amount of compensation we pay these 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 (which are competitively set to the market), but the achievement of pre-set financial metrics are 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.

Short-Term Incentives - Annual Incentive Bonus Plan

In 2006, the Committee 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. For 2015, the Committee maintained Mr. Taylor’s target award opportunity to up to 100% of his base salary. Target award opportunity was 50% of average base salary for Messrs. Lawrence and Hazlett.

In 2015, 90% of an executive officer’s IBP award was based on achievement of company financial objectives relating to:

- total revenues;
- adjusted EBITDA; and
- adjusted 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 performance 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 performance 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 the "threshold" amount;
- 100% of the bonus amount attributable to a financial component will be paid if we achieve the "target" amount; and
- 125% of the bonus amount attributable to a financial component will be paid if we achieve the "stretch" amount.

For performance achievement between the set financial objectives, the board has discretion to prorate the amount of the award.

The following table sets forth the bonus financial criteria and performance levels set by the Committee and compares such performance levels to actual performance achieved and the resulting bonus payout percentages earned in 2015:

2015 Annual Incentive Bonus Plan

| Performance Level [(1)] | Payout % | Revenue | Adjusted Net Inc. before Taxes[(1)] | Adjusted EBITDA[(1)] |
|---|---|---|---|---|
| Threshold | 75% | $ 83,232,489 | $ 11,547,015 | $33,912,884 |
| Target | 100% | $ 88,073,937 | $ 15,876,422 | $38,242,292 |
| Stretch | 125% | $ 94,628,733 | $ 17,060,040 | $39,425,910 |

(1) The three financial performance levels were based on operating performance without giving effect to a loss on a non-recurring retirement of rental equipment and allowances taken in second quarter of 2015.

The following table sets forth the actual results achieved and the resulting bonus payout percentages earned in 2015:

| Criteria | 2015 Performance | Stretch Metric[(1)] | Eligible Bonus Percentage | Bonus Component | Payable Bonus |
|---|---|---|---|---|---|
| Revenue | $95,918,835 | $94,628,733 | 125 % | 30 % | 37.5 % |
| Adjusted Net Income before Taxes* | $19,789,785 | $17,060,040 | 125 % | 30 % | 37.5 % |
| Adjusted EBITDA** | $42,406,476 | $39,425,910 | 125 % | 30 % | 37.5 % |
| Personal Performance | | | 100 % | 10 % | 10.0 % |
| Total | | | | | 122.5% |

(1)The three financial levels and 2015 performance were based on operating performance without giving effect to a special loss on retirement of rental equipment write-down taken in 2015.

* Adjusted Net Income before Taxes is adjusted for loss on retirement of rental equipment and second quarter 2015 increase in allowances. See fourth quarter 2015 8-K.

** Adjusted EBITDA is defined as the Company's earnings before interest, income taxes, depreciation, amortization, and loss on a non-recurring retirement of rental equipment, and is an indicator of operating performance.

The following table sets forth the bonus eligibility set by the Committee for 2015 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 2015 under our Annual Incentive Bonus Plan:

| Name | Title | Base Salary | Max Bonus Eligibility | Bonus Base | Bonus Payout % | Bonus Payouts |
|---|---|---|---|---|---|---|
| Stephen C. Taylor | President & CEO | $543,063 | 100 % | $543,063 | 122.5% | $665,252 |
| G. Larry Lawrence | Chief Financial Officer | $187,000 | 50 % | $93,500 | 122.5% | $114,538 |

| | | | | | |
|---|---|---|---|---|---|
| James R. Hazlett | VP- Technical Services | $200,000 | 50 % | $100,000 | 122.5 % | $122,500 |

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As noted in the tables above, actual financial performance for 2015 exceeded the "stretch" level in each of the three financial metrics set for 2015, thereby entitling each of the named executive officers to 125% of the maximum bonus payout for each of the three financial metrics.

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 2015. In addition to the Committee's non-quantitative evaluation of each executive's performance, with respect to all of the named executives, the Committee made this award in recognition of the Company's 2015 financial and operational performance.

With respect to Mr. Taylor's personal performance criteria, the Committee based its full award on (i) quickly reacting to the deteriorating market by cutting capital expenditures by 77% in 2015 versus 2014; (ii) utilizing a combination of aggressive (new product introductions and expanded sales coverage) and defensive (cost cutting and strategic pricing) measures to guide the Company through the worst downturn in decades; and (iii) his continued ability to maintain superior cost control, industry leading margins in operating income, adjusted EBITDA and cash flow.

With respect to Mr. Lawrence's personal performance criteria, the Committee also based its full award on his success in (i) initiating and managing the R&D tax credit process that resulted in appreciable tax credits; (ii) leading implementation of our SEC-mandated conflict mineral reporting and tracking process; and (iii) initiating EDI with our major customers for more efficient and timely processing of invoices.

With respect to Mr. Hazlett's personal performance criteria, the Committee also based its full award on his (i) efficiently managed the severe contraction in our compressor fabrication throughput; (ii) leading the final engineering design and development of our new 500 horsepower compressor frame and VRU (Vapor Recovery Unit) product offerings; and (iii) maintaining an efficient level of engineering staffing that enabled the Company to consistently respond to customer bid requests and 'win' the work.

With respect to the rigor if the IBP financial targets, in 2014 the company's officers were awarded only 77.5% of their target bonus in spite of 2014 being a record year for the company.

Long-Term Incentives - Restricted Stock Awards

We consider 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 restricted stock aligns the interests of our executive officers with our shareholders in that our executive officers will benefit from the restricted stock only to the extent that the value of our common stock increases. With the exception of Mr. Taylor, our Chief Executive Officer, the number of 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. In Mr. Taylor's employment agreement we have agreed to award Mr. Taylor a restricted stock award or equivalent equity awards in January of each year with an aggregate minimum value equal to at least 175% of his Base Salary, subject to current vesting terms and other standard terms which shall be established by the Compensation Committee taking into account the performance of the Company, Mr. Taylor and industry norms. Our compensation consultant concurred with our approach relating to long-term incentives and recommended that we continue the practice.

In 2009, we adopted the 2009 Restricted Stock/Unit Plan (the "Plan") and it went into effect upon its approval by our shareholders at our 2009 annual meeting. We typically grant awards under the Plan to our executive officers and Directors during the first quarter of each year after reviewing the Company's operational and financial results from the previous year.

During the first and second quarters of 2016, the Company granted the following restricted stock awards in connection with our 2015 financial and operational results and personal accomplishments of our named executive officers:

| Name | Dollar Value of the Award | Number of Restricted Shares Awarded |
|---|---|---|
| Stephen C. Taylor, CEO and President | $1,679,999 | 75,915 |
| James R. Hazlett, Vice President - Technical Services | $407,800 | 20,000 |
| G. Larry Lawrence, Chief Financial Officer | $407,800 | 20,000 |

Pursuant to Mr. Taylor's employment agreement, we are required to grant a restricted stock award or equivalent equity awards in January of each year with an aggregate minimum value equal to at least 175% of his Base Salary. See “Compensation Agreements with Management” beginning on page 41 of this Proxy Statement for information concerning Mr. Taylor’s employment agreement.

The Committee also reviewed Mr. Taylor's total compensation level along with Company's performance and Mr. Taylor's personal performance in connection with determining the value of the 2015 restricted stock award. As a result of the Committee's review, the Committee awarded Mr. Taylor (i) 44,284 shares of restricted common stock pursuant to the terms of his employment agreement and (ii) an additional 31,631 shares of restricted common stock in recognition of our 2015 financial and operational results and performance, for a total award of 75,915 shares of restricted common stock. The restricted shares are subject to a two year vesting period (half of the shares vest on the first anniversary date and the remaining half on the second anniversary date), although such vesting is 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 Plan.

On April 6, 2016, the Compensation Committee awarded 20,000 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 two year vesting period (half of the shares vest on the first anniversary date and the remaining half on the second anniversary date). 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 Plan.

The additional restricted shares which were issued to Mr. Taylor in excess of the 175% of his Base Salary obligation under the terms of his employment agreement, and the restricted stock awards to our other two named executive officers were made in recognition of their personal performance and of the Company's 2015 financial and operational performance as set forth under "Fiscal Year 2015 Performance" on page 20 of this Proxy Statement.

Further information concerning these awards is set forth in column (i) of the "Summary Compensation Table" on page 32 and column (i) of the "Grants of Plan-Based Awards for Fiscal 2015" on page 34.

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 32.

Total Direct Compensation

In determining the extent to which our chief executive officer compensation program meets the Committee’s compensation philosophy and objectives, the Committee considers the competitiveness of total compensation (the aggregate of base salary, annual cash bonus incentive payment, and the grant value of long-term incentive plan award). Using the Custom Peer Group data from Longnecker’s study and discussing with Longnecker the pay practices of our peers, the total compensation for Mr. Taylor, our Chief Executive Officer, was at approximately the 75th percentile bracket which the Committee believed to be warranted considering our relatively strong (i) 2015 financial and operational results during a difficult time for companies in the oil and gas industry and (ii) total shareholder return when compared to our peer group.

Employment Agreements

We employed Stephen C. Taylor, our President and Chief Executive Officer, in January 2005. On October 23, 2013, we entered into a new written employment agreement with Mr. Taylor. We do not have written employment agreements with any of our other executive officers. On April 24, 2015, we entered into an amendment with Mr. Taylor to his Employment Agreement pursuant to which the "modified single trigger" change of control provision was changed to a "double trigger" change of control. Under the "modified single trigger provision", Mr. Taylor could voluntarily terminate the Employment Agreement for any reason immediately upon a change in control and collect severance benefits. Under the new "double trigger" change of control provision, a change of control must occur followed by the Company or its successor terminating Mr. Taylor's employment other than for cause, death, or disability, or by Mr. Taylor terminating his employment for Good Reason. See “Compensation Agreements with

Management” beginning on page 41 of this Proxy Statement for detailed information concerning Mr. Taylor’s employment agreement, as amended.

Allocation of Amounts and Types of Compensation

Other than the 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, except with respect to our Chief Executive Officer whose employment agreement currently requires an annual restricted stock award or similar equity award with a value of at least 175% of his base salary. However, the Committee is in the process of revising its long-term equity compensation program to a hybrid performance and discretionary methodology. See "Chief Executive Officer Equity Compensation" on page 39. The Committee has not adopted a specific policy or target for the allocation between amounts or types of compensation. 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.

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 38.

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 32.

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.

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.

Say-on-Pay

At our 2015 Annual Meeting of shareholders held in June 2015, we submitted a proposal to our stockholders regarding our executive compensation practices. The proposal was an advisory vote on the 2014 compensation awarded to our named executive officers (commonly known as a “Say-on-Pay” vote). Excluding broker non-votes, our shareholders disapproved our 2014 compensation with less than half (48.6%) of the shares that voted on the proposal voting in favor of our 2014 executive compensation practices.

As noted at the beginning of this section, the results were disappointing since we believe the vote was the result of the influence from recommendations from proxy advisory firms, of which advise institutional investors on voting on annual proxy matters. We believe that their reports contained factual errors and assumptions that resulted in questionable conclusions and recommendations, and in June 2015 we sent a letter to the proxy advisory firms which detailed our issues with their reports. We also sent our shareholders a copy of these letters and filed our correspondence with the Securities and Exchange Commission on June 15, 2015. You can access this filing free of charge on the Investor Relations section of our website (www.ngsgi.com). A paper copy is also available, without charge upon written request, at Natural Gas Services Group, Inc., 508 West Wall Street, Suite 550, Midland, Texas 79701.

Notwithstanding, we took numerous remedial measures, including:

- adopting a clawback policy the covers all executive officers;
- adopting executive and director stock ownership guidelines;
- extending the vesting terms on restricted stock awards made to our executive officers;
- amending our Corporate Governance Guidelines to include a lead independent director. Charles Curtis, our longest tenured independent director, has been appointed as our lead director; and
- amending our Bylaws to require a majority vote standard in connection with the uncontested election of Directors subject to shareholder approval.

Corporate Governance Policies

To ensure our compensation programs are aligned with the long-term interest of our shareholders, we have adopted several governance policies that we expect our executive officers to comply with, including meaningful stock ownership guidelines, a pledging and hedging policy and a recapture or “clawback” policy that provides for the recoupment of any performance-based payouts made based on financial results that are not in compliance with any financial reporting requirement that requires restatement of the Company’s financial statements. In addition, to provide our shareholders with a meaningful role in the election of Directors and to enhance our corporate governance standards, we have adopted a "majority vote" requirement in the election of Directors, subject to the approval of our Shareholders at the annual meeting (see Proposal 5). Below are summaries of these new policies.

Compensation Clawback Policy

The Company has adopted a compensation recoupment, or “clawback” policy intended to be consistent with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). This policy provides that, in the event we are required to restate our financial statements as a result of “material noncompliance” with financial reporting requirements under the securities laws, we will recover from our current and former executive officers any incentive-based compensation (including equity awards) that is (i) based on material erroneous data, (ii) received during the three-year period preceding the date on which the Company becomes required to prepare an accounting restatement, and (iii) in excess of what would have been paid if calculated under the restatement. In addition, the Dodd-Frank Act requires the SEC to issue regulations requiring issuers to seek recovery from executive officers in certain circumstances involving financial restatements. The SEC has issued proposed regulations implementing this portion of the Dodd-Frank Act. Once the SEC finalizes its regulations regarding the required form of a clawback policy under the Dodd-Frank Act, we expect to amend our clawback policy accordingly.

Pledging and Hedging Policy

The Company considers it improper and inappropriate for any director, executive officer or associate to engage in short-term or speculative transactions involving our Common Stock. We therefore prohibit directors, executive officers and other associates from engaging in pledging, short sales or other short position transactions in our Common Stock. We also strongly discourage directors, executive officers and other associates from engaging in certain forms of hedging or monetization transactions.

Director and Executive Officer Stock Ownership Guidelines

The Company has stock ownership requirements for its directors and executive officers. The purpose of the ownership requirements is to further our goal of increasing shareholder value and to further align the interests of our directors and key executives with the interests of our shareholders. Satisfaction of the policy requires that individuals attain and retain holdings of our common stock with a market value equal to the following multiple of the individual's compensation, defined as either a director's cash retainer fee or an officer's base salary. The table below indicates the stock ownership guidelines for our executive officers and Board members:

| | |
|---|---|
| | Stock Ownership Guidelines |
| Executive Officer/Director | (as a multiple of base salary/annual cash retainer) |
| CEO | 3 times Base Salary |
| All other executive officers | 2 times Base Salary |
| Non-employee Directors | 1 times Base Annual Cash Retainer |

Each person's stock ownership requirement will be adjusted annually each January 1 to reflect any changes in his or her retainer or base salary. Generally, individuals have a five-year period to attain their stock ownership requirements. At any time at which the individual's stock ownership requirement has not been met, including during the initial five-year period to attain compliance, the individual will be required to retain at least 50% of "Net Shares" received upon vesting of restricted stock, restricted stock units and performance units. "Net Shares" are defined to include shares of common stock that are owned by the individual after shares are sold, swapped or traded to pay applicable withholding taxes. Subsequent to achieving the initial stock ownership requirement, all directors and executives are required to continuously maintain stock ownership at their specified levels.

If an individual does not meet the applicable ownership requirements, then he or she is subject to certain restrictions upon the vesting of equity awards, and may only dispose of shares for particular reasons set forth in the policy. The policy provides a hardship exemption, for which an individual must submit a request to the corporate governance committee. Presently, all of our directors and our executive officers have attained or exceeded their ownership requirements.

Majority Vote Standard in Uncontested Director Elections

In April 2016, the Board amended our Bylaws to implement a majority vote standard in uncontested elections of Directors. Prior to this amendment, Directors were elected by plurality vote, meaning that nominees for the election of Directors who received the greatest number of votes cast in favor of his or her election would be elected to the Board even if such number of favorable votes was less than a majority of votes cast in the election. Under our revised Bylaws, in uncontested elections each Director must be elected by an affirmative majority of the votes cast. Under our new Bylaw provisions in connection with uncontested elections, abstentions and broker non-votes will not be counted and will have no effect in determining whether the required majority vote has been obtained. With respect to contested elections (those where the number of nominees exceeds the number of directors to be elected), a plurality vote standard will continue to apply. This amendment to our Bylaws requires Shareholder approval at the annual meeting (see Proposal 5).

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 2016 Annual Meeting of Shareholders.

Members of the Compensation Committee

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

Executive Compensation

The table below sets forth the compensation earned by, and paid to our CEO, Stephen C. Taylor, and our other named executive officers for services rendered to us for the fiscal years ended December 31, 2015, 2014 and 2013.

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 |
|---|---|---|---|---|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| Stephen C. Taylor, Chairman, President & CEO | 2015 | $561,036 | $6,646 | 1,679,999 | $ — | $665,252 | $ — | $14,264 | $2,927,197 |
| | 2014 | 540,949 | 7,267 | 1,629,169 | $ — | 391,511 | — | 14,444 | 2,583,340 |
| | 2013 | 444,798 | 8,405 | 1,389,196 | 86,860[6] | 444,324 | — | 15,752 | 2,389,335 |
| G. Larry Lawrence, Chief Financial Officer | 2015 | 193,754 | 2,289 | 407,800 | — | 114,538 | — | 16,722 | 735,103 |
| | 2014 | 180,708 | 2,445 | 375,000 | 16,910[7] | 59,288 | — | 12,645 | 646,996 |
| | 2013 | 152,308 | 3,020 | 456,150 | 16,899[8] | 66,854 | — | 13,573 | 708,804 |
| James R. Hazlett, Vice President, Technical Services | 2015 | 207,539 | 2,448 | 407,800 | — | 122,500 | — | 31,619 | 771,906 |
| | 2014 | 200,228 | 3,574 | 375,000 | 33,809[9] | 66,263 | — | 29,259 | 708,133 |
| | 2013 | 180,989 | 3,574 | 456,150 | 33,819[10] | 76,325 | — | 30,119 | 780,976 |

(1) The amounts reflected in column (d) reflect payments under the company's profit sharing program administered to all employees.

(2) The amounts in column (e) reflect the grant date fair value of stock granted under our 2009 Restricted Stock/Unit Plan.

(3) The amounts in column (f) reflect the dollar amounts recognized for financial statement reporting purposes for the fiscal years ended December 31, 2015, 2014 and 2013, 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 for our audited financial statements for the fiscal year ended December 31, 2015; footnote 8 for our audited financial statement for fiscal year ended December 31, 2014; and footnote 8 for our audited financial statement for fiscal year ended December 31, 2013.

(4) The amounts in column (g) reflect the cash bonus awards to the named executive officers under our Annual Incentive Bonus Plan, which is discussed in further detail on page 25 under the caption "Short-Term Incentives - Annual Incentive Bonus Plan."

(5) The amounts shown in column (i) include matching contributions made by Natural Gas Services Group to each 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 | 2015 | $ — | $ 1,800 | $ 6,912 | $ 5,552 | $ 14,264 |
| | 2014 | — | 1,800 | 7,285 | 5,359 | 14,444 |
| | 2013 | — | 1,800 | 6,715 | 7,237 | 15,752 |
| G. Larry Lawrence | 2015 | 10,592 | — | — | 6,130 | 16,722 |
| | 2014 | 10,200 | — | — | 2,445 | 12,645 |
| | 2013 | 10,200 | — | — | 3,373 | 13,573 |
| James R. Hazlett | 2015 | 10,592 | — | 17,400 | 3,627 | 31,619 |
| | 2014 | 10,200 | — | 16,463 | 2,596 | 29,259 |
| | 2013 | 10,200 | — | 15,828 | 4,091 | 30,119 |
| Total | 2015 | 21,184 | 1,800 | 24,312 | 15,309 | 62,605 |
| | 2014 | 20,400 | 1,800 | 23,748 | 10,400 | 56,348 |
| | 2013 | 20,400 | 1,800 | 22,543 | 14,701 | 59,444 |

(6) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2013, in accordance with FASB ASC Topic 718, for 10,000 shares of common stock that vested on January 18, 2013 under the stock option granted to Mr. Taylor on January 18, 2010.

(7) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2014, in accordance with FASB ASC Topic 718, for 1,667 shares of common stock that vested on January 24, 2014 under the stock option granted to Mr. Lawrence on January 24, 2011.

(8) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2013, in accordance with FASB ASC Topic 718, for 1,666 shares of common stock that vested on January 24, 2013 under the stock option granted to Mr. Lawrence on January 24, 2011.

(9) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2014, in accordance with FASB ASC Topic 718, for 3,333 shares of common stock that vested on January 24, 2014 under the stock option granted to Mr. Hazlett on January 24, 2011.

(10) This amount reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2013, in accordance with FASB ASC Topic 718, for 3,334 shares of common stock that vested on January 24, 2013 under the stock option granted to Mr. Hazlett on January 24, 2011.

Grants of Plan Based Awards

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

Grants of Plan-Based Awards for Fiscal 2015

| | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) | | | Estimated Future Payouts Under Equity Incentive Plan Awards | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Grant Date | Threshold ($) | Target ($) | Maximum ($) | Threshold (#) | Target | Maxi-mum ($) | 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 ($/Sh) | Grant Date Fair Value of Stock and Option Awards ($) |
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) | (l) |
| Stephen C. Taylor | 1/6/2016 | — | — | — | — | — | — | 75,915 | — | $ 22.13 | $ 1,679,999 |
| G. Larry Lawrence | 4/6/2016 | — | — | — | — | — | — | 20,000 | — | 20.39 | 407,800 |
| James R. Hazlett | 4/6/2016 | — | — | — | — | — | — | 20,000 | — | 20.39 | 407,800 |

(1) No awards were made under the non-equity Incentive Plan for 2015 except as described of the performance goals 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 - Annual Incentive Bonus Plan” on page 25.

(2) The information shown in this column reflects awards of restricted stock earned in 2015 (but issued in early 2016) our named executive 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 performance levels for Natural Gas Services Group’s total revenues, adjusted EBITDA and adjusted 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%. Detailed information regarding the IBP and the calculation of awards is provided under the caption “Short-Term Incentives – Annual Incentive Bonus Plan” on page 25.

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. On April 5, 2016, subject to shareholder approval, the Board of Directors voted to amend and restate the 1998 Plan to extend the 1998 Plan until February 28, 2026 and increase the number of shares of common stock issuable under the Plan from 750,000 to 1,000,000. See "Proposal 3" on page 50.

As of December 31, 2015, stock options to purchase a total of 414,769 shares of our common stock were outstanding under the 1998 Stock Option Plan. There were no shares included that relate to our non-employee directors under the compensation arrangements described under the caption “Compensation of Directors” on page 40.

A total of 93,419 shares of common stock were available at December 31, 2015 for future grants of stock options under the 1998 Stock Option Plan.

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 800,000 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.

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 quantitative and qualitative performance goals in order for awards to vest. For instance, quantitative performance standards, including, but not limited to, 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, and (m) EBITDA, 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 12, 2016, we had issued 611,292 shares of restricted stock under the 2009 Plan, of which 454,634 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, 2015 and held by our Chief Executive Officer, Stephen C. Taylor, and each other named executive officer.

Outstanding Equity Awards at 2015 Fiscal Year-End

| | Option Awards | | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price ($) | Option Expiration Date | Number of Shares of Stock That Have Not Vested (#) | Market Value of Shares of Stock that Have Not Vested ($) | Equity Incentive Plan Awards: Number of Unearned Shares or Other Rights that Have Not Vested (#) | Equity Incentive Plan Awards: 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 | 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 | — | — | — | — |
| | 30,000 | — | — | $ 19.90 | 1/18/2020 | — | — | — | — |
| | — | — | — | — | — | 83,590 | $ 1,629,169 | — | — |
| G. Larry Lawrence | 5,000 | — | — | $ 17.81 | 1/24/2021 | — | — | — | — |