

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report: March 21, 2005
Date of Earliest Event Reported: March 16, 2005

NATURAL GAS SYSTEMS, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada

(State or Other Jurisdiction of Incorporation)

0-27862

(Commission File Number)

80-0028196

(I.R.S. Employer Identification No.)

820 Gessner, Suite 1340, Houston, Texas

(Address of Principal Executive Offices)

77024

(Zip Code)

(713) 935-0122

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

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ITEM 2.03. CREATION OF A DIRECT FINANCIAL OBLIGATION OR AN OBLIGATION UNDER AND
OFF-BALANCE SHEET ARRANGEMENT OF A REGISTRANT

Additional Draw Request in connection with Loan Agreement with Prospect Energy
Corporation

On March 16, 2005, Natural Gas Systems, Inc. ("NGS" or the "Company")
borrowed an additional \$1.0 million (the "Additional Advance") under the terms
of the Loan Agreement (defined below) with Prospect Energy Corporation
("Prospect").

On February 2, 2005, the Company entered into a senior secured loan
agreement (the "Loan Agreement") with Prospect providing for borrowings by the
Company of up to \$4.8 million (the "Secured Loan"). The Loan Agreement was
finalized and first fundings made on February 3, 2005. The second funding,
namely the Additional Advance of \$1.0 million on March 16, 2005, referenced in
this Current Report on Form 8-K, increased the total aggregate borrowings with
Prospect to \$4.0 million. The Company has until May 4, 2005 to elect to borrow
the remaining \$800,000 available under the Loan Agreement. The Secured Loan
bears interest at an annual rate equal to the greater of (a) 14% and (b) the
Treasury Rate plus 9%, with interest payable in arrears on the last day of each
month. The Secured Loan is due in full on February 2, 2010. The proceeds of the
Secured Loan may be used solely for the acquisition and development of oil and
gas properties, general working capital and the repayment of specified
indebtedness, provided that the Company is prohibited from using any of the

proceeds for exploratory drilling or the acquisition of oil and gas properties without the consent of Prospect.

Pursuant to the terms of the Additional Advance under the Loan Agreement, the Company was required to issue Prospect five-year warrants to purchase up to 150,000 shares of NGS stock at an exercise price of \$0.75 per share, and "revocable warrants" to purchase up to an additional 100,000 shares of common stock at an exercise price of \$0.75 per share. The revocable warrants are subject to cancellation by the Company prior to their exercise if the Company meets and maintains certain operating cash flow targets.

The shares of common stock issuable upon exercise of the warrants held by Prospect are subject to a registration rights agreement, pursuant to which the Company has agreed to register sales by Prospect and its transferees of such shares under the Securities Act of 1933, as amended. Subject to limitations specified in this agreement, these registration rights include an unlimited number of piggyback registration rights that require NGS to register sales of a holder's shares when NGS undertakes a public offering and certain other types of offerings, subject to the discretion of the managing underwriter of the offering, if any, to decrease the amount that holders may register.

The Secured Loan is secured by a Mortgage, Collateral Assignment, Security Agreement and Financing Statement executed by NGS Sub, Inc., a wholly owned subsidiary of NGS ("NGS Sub"), granting Prospect a first-priority security interest in substantially all of NGS Sub's assets, as well as by pledges of the stock of NGS's direct and indirect subsidiaries. The Secured Loan is also guaranteed by NGS's direct and indirect subsidiaries.

Among other conditions, the Loan Agreement requires that the Company (i) maintain a debt service reserve account in an initial amount equal to 7.5% (or, after October 1, 2005, 5%) of the outstanding borrowings at any time (provided that the required percentage shall be increased to 14% in the event certain earnings tests are not met), and (ii) subject to certain conditions, obtain a \$1.5 million key-man life insurance policy on Robert S. Herlin, the Company's President and Chief Executive Officer.

Among other restrictions and subject to certain exceptions, the Loan Agreement prohibits the Company and each of its restricted subsidiaries from creating liens, entering into certain types of mergers or consolidations, incurring additional indebtedness, changing the character of its business, or engaging in certain types of transactions. The Loan Agreement also requires NGS to maintain specified financial ratios. In order to satisfy certain of these ratios, the Company will need to significantly increase its earnings.

The Loan Agreement provides that the Company will be in default under the Secured Loan if Mr. Herlin shall cease for any reason to be actively employed full time as President of NGS, unless NGS replaces Mr. Herlin within 90 days following such event, and his replacement is reasonably satisfactory to Prospect.

The foregoing descriptions are qualified and extended by reference to Exhibit 10.1 to this Current Report on Form 8-K, which is incorporated herein by reference, and the Exhibits referenced on Current Report on Form 8-K filed February 8, 2005, also incorporated herein by reference.

ITEM 3.02. UNREGISTERED SALES OF EQUITY SECURITIES.

See Item 2.03 above.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits.

The following exhibit is filed as an exhibit to this Current Report on Form 8-K:

EXHIBIT NO.	DESCRIPTION
10.1	Certificate of Draw Request, dated as of February 16, 2005, between Natural Gas Systems, Inc., a Nevada corporation ("NGS") and Prospect Energy Corporation ("Prospect")

SIGNATURES

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

NATURAL GAS SYSTEMS, INC.

Date: March 21, 2005

By: /s/ Robert Herlin

Robert Herlin, Chief Executive Officer

CERTIFICATE FOR DRAW REQUEST

This Certificate is made effective as of March 16, 2005, in connection with that certain Loan Agreement (the "Agreement") dated as of February 2, 2005, between Natural Gas Systems, Inc., a Nevada corporation (the "Borrower") and Prospect Energy Corporation, a Maryland corporation (the "Lender"). Defined terms used in the Agreement shall have the same meanings used herein, unless otherwise specified herein.

In connection with the Borrower's request for an Advance in the amount of \$1,000,000.00, the Borrower represents and warrants to the Lender that:

- (a) Each of the representations and warranties of the Companies contained in the Agreement and the Collateral Documents is true and correct in all material respects on and as of the date hereof, both before and after giving effect to the proposed Advance and to the application of the proceeds therefrom, as though made on and as of such date, other than any such representations or warranties that by their terms refer to a specific date other than the date of the proposed Advance, in which case as of such specific date, and except as such representations and warranties relate to matters that are changed as permitted by the Agreement.
- (b) At the date hereof, no Default shall have occurred and be continuing.
- (c) The Borrower shall not have had a Material Adverse Effect from its condition represented in the most recent financial statements furnished to the Lender prior to the Closing Date, except to the extent that such changes are permitted by the Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Certificate to be duly executed pursuant to Section 7.3 of the Agreement effective as of the date first above written.

NATURAL GAS SYSTEMS, INC.

By:

Name: Robert S. Berlin
Title: President & CEO